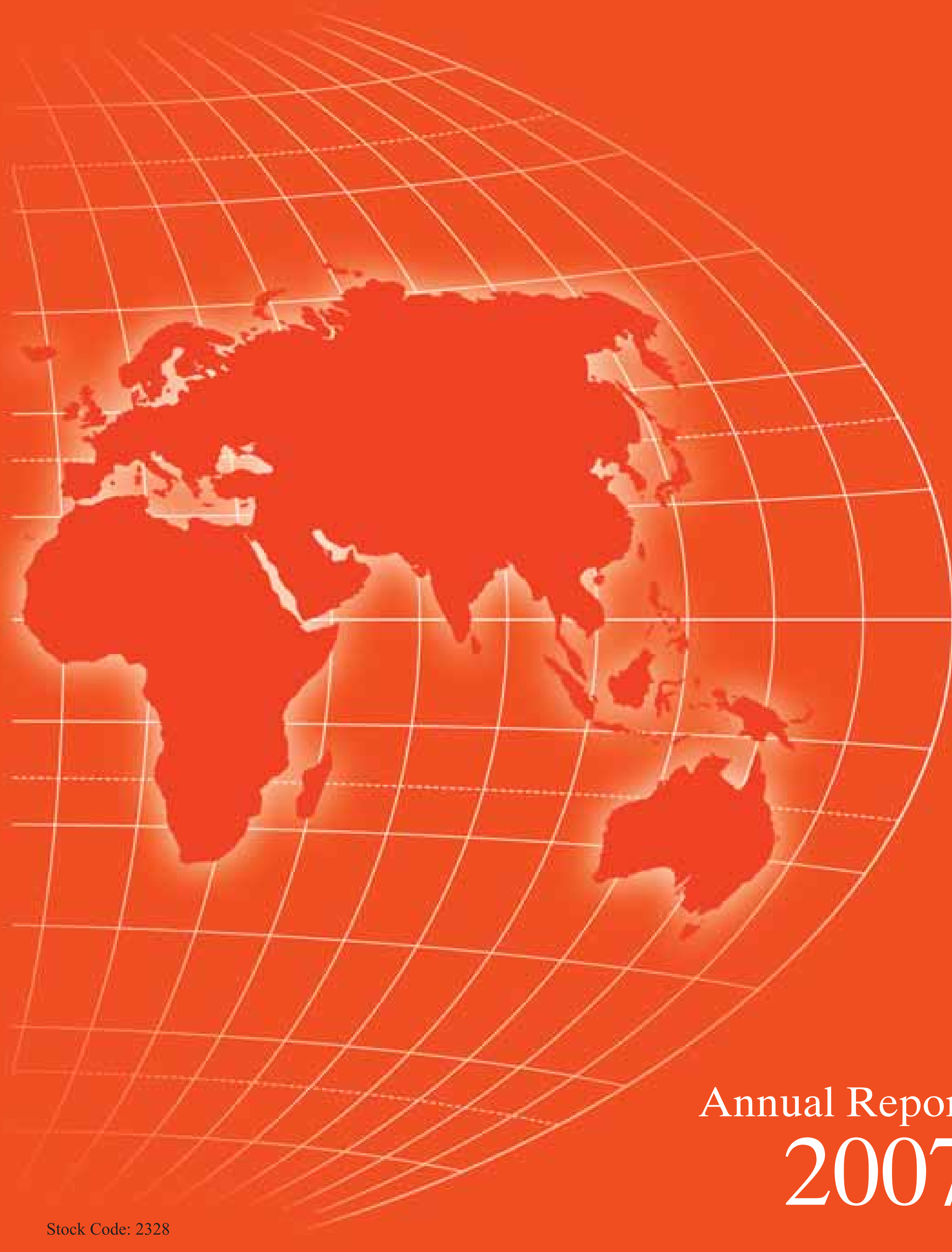
PICC 中国人保财险

北京2008年奥运会保险合作伙伴

OFFICIAL INSURANCE PARTNER OF THE BEIJING 2008 OLYMPIC GAMES



Annual Report 2007

Stock Code: 2328

Company Profile

PICC Property and Casualty Company Limited (the "Company") was established in July 2003 with The People's Insurance Company of China (presently renamed as The People's Insurance Company (Group) of China) ("PICC Group") as its sole promoter. The Company became the first domestic financial enterprise to list overseas when the Company successfully listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 6 November 2003 through the issuance of 3,455,980,000 H shares. The Company currently has a total share capital of 11,141,800,000 shares, of which 69% are held by PICC Group and 9.9% are held by American International Group, Inc. ("AIG"), a strategic investor of the Company. As of the end of 2007, the Company had 60,102 employees.

Principal Activities

Motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, hull insurance, agriculture insurance, surety insurance, which are denominated in RMB and foreign currencies, together with the reinsurance of the above insurance products, and investment and fund application business permitted under the relevant laws and regulations of the PRC.

Competitive Advantages

- Brand Recognition. With 59 years of operating history, the "PICC" brand enjoys a prominent reputation in the PRC market and has influences in the international insurance market.

- Leading Market Position. The Company has a leading position in the non-life insurance market in mainland China, with a market share of 42.5% in 2007.

- Personnel Advantages. The Company has nurtured and trained a large number of insurance specialists and has an outstanding workforce with extensive expertise, proficient technical skills and distinctive commitment.

- Extensive Network. With more than 4,500 branches nationwide, the Company has the most extensive sales network among all property and casualty insurance companies in the PRC. The service line 95518 and the electronic commerce platform www.e-picc.com.cn of the Company provide various insurance services 7 days 24 hours to customers.

- Solid Customer Base. The Company has strong capabilities in product development and customer service to meet customer needs, and has the largest and the most stable customer base in the non-life insurance market in mainland China.

- Technical Advantages. The Company has comprehensive and mature technical expertise in and information platform for core capabilities such as underwriting, claims management and product development.

- Data Advantages. The extensive operational data accumulated by the Company over the years provide a solid foundation for analysis and decision-making, and further the Company to have a thorough understanding of the non-life insurance market in mainland China.

Contents

Summaries of the results and the assets and liabilities of the Company and its subsidiaries for each of the past five financial years are set out as follows:

RESULTS

	Year ended 31 December				
	2003 *RMB million*	2004 *RMB million*	2005 *RMB million*	2006 *RMB million*	**2007** ***RMB million***
Turnover	54,968	62,003	65,914	71,348	**88,668**
Underwriting profit/(loss)	1,496	436	1,508	604	**(1,427)**
Net investment income	690	1,326	1,478	1,689	**3,229**
Net realised and unrealised gains/(losses) on investments	260	(988)	(336)	2,372	**4,442**
Profit before tax	2,288	395	1,945	3,800	**4,456**
Tax	(837)	(261)	(1,005)	(1,718)	**(1,465)**
Profit attributable to equity holders of the parent	1,451	134	940	2,082	**2,991**

Only certain material items of the income statement are extracted and presented in the table above.

ASSETS AND LIABILITIES

	31 December				
	2003 *RMB million*	2004 *RMB million*	2005 *RMB million*	2006 *RMB million*	**2007** ***RMB million***
Total assets	84,572	90,757	95,112	106,974	**134,265**
Total liabilities	67,815	74,604	77,314	86,247	**108,187**
Thereinto: subordinated loan/debts	2,000	2,000	2,000	3,000	**3,000**
Net assets	16,757	16,153	17,798	20,727	**26,078**

The results of the Company for 2003 were based on its pro forma income statement for the year then ended.

Dear Shareholders,

In 2007, by seizing on the opportunity of the rapid development of the financial and insurance industry in Mainland China, the Company pushed forward its reform and development and adopted aggressive business development strategies. The Company achieved the best operating results in 2007 since its listing, presenting excellent development prospects.

In 2007, the premiums income of the entire insurance industry of Mainland China reached RMB703.58 billion, representing an increase of 24.7% over 2006, of which premiums income generated from the property insurance sector reached RMB199.77 billion, representing an increase of 32.6% over 2006. With the rapid growth of the insurance market in Mainland China, the competition for resources is increasingly intensified, the integrated operation is being further promoted, and the industry competition patterns are undergoing dramatic changes.

In 2007, premiums income of the Company and its subsidiaries amounted to RMB88,668 million, representing an increase of 24.3% over 2006. Net premiums earned reached RMB68,728 million, representing an increase of 23.6% over 2006. Underwriting loss was RMB1,427 million. Combined ratio was 102.1%, which included a loss ratio of 68.3% and an expense ratio of 33.8%. Investment income was RMB7,671 million, representing an increase of 88.9% over 2006. Net profit was RMB2,991 million, representing an increase of 43.7% over 2006. Return on net assets was 12.8%, representing an increase of two percentage points as compared with 2006. At the end of 2007, the total assets of the Company and its subsidiaries were RMB134.265 billion, representing an increase of 25.5% over 2006. The solvency margin adequacy ratio of the Company and its subsidiaries reached 189%, demonstrating an increased risk resisting capability. The Company had a market share of 42.5% and continued to maintain a leading position in the non-life insurance market in Mainland China.

In 2007, the Company by further strengthening reform, reorganisation, integration and innovation, continuously enhanced its awareness in respect of market, development and management and control, and further reinforced the foundation for growth and boosted the vitality in its operations.

Promotion of innovative growth strategies and significant enhancement of competitiveness: The Company made market-oriented innovations in marketing strategies, products and services. It made great efforts in exploring the urban and rural insurance markets, promoting cross-sales, strengthening the cooperative relationship with various levels of government bodies, community service institutions and banks, etc., extending its antenna for further growth and expanding business channels. The Company strengthened the construction of its professional marketing teams by combining the personal marketing mode with the reorganization of direct sales teams, so as to stimulate the vitality in sales. It developed innovative products such as investment-type products, products designed for specific channels, and the special insurance products designed for the Olympic Games and the World Expo 2010 Shanghai.

Chairman Wu Yan was making a speech at the Start-up Ceremony of the 300-day countdown to PICC P&C Olympic Games Insurance Protection Scheme.

Chairman Wu Yan (right) and Hong Hao, Vice Secretary-General of Shanghai Municipal Government and Director of Bureau of Shanghai World Expo Coordination, at the signing ceremony of the Company's becoming the global insurance partner of the World Expo 2010 Shanghai.

Implementation of strategic capital operation and optimisation of assets allocation: The Company invested RMB812 million in PICC Life Insurance Company Limited, thereby holding 28% of the latter's equity interests. This investment will bring the long-term benefit from the development of China's life insurance sector to the Company and help promoting the business interaction and collaboration between the Company and PICC Life Insurance Company Limited. The Company also made an effort in the optimisation of strategic assets allocation, strengthened the assets and liabilities matching management, actively promoted investment diversity, and had been continuously enhancing the level and stability of investment income.

Enhancement of infrastructure for basic level branches and substantial improvement in sustainability: The Company implemented active financial policies, devoted more resources to the development of basic level branches, and strengthened the construction of the branches and personnel in the front-line of business development. The Company further optimised its network distribution and expanded the coverage of urban sales network. It allocated special funds for developing rural sales network and exploring various modes for the construction of rural sales channels. The Company had more than 11,000 sales offices in rural areas.

Focus on prevention and mitigation of risks and strengthening of refined management: The Company set up six regional monitoring and auditing centres on a broad region basis so as to strengthen auditing, inspection and special management. It enhanced the system of compliance officer, set up and improved the compliance management organizations and systems, and issued regular reports on evaluation of internal control, compliance and risk management. It further improved the performance appraisal system and the financial evaluation system, implemented the long-term joint inspection mechanism in respect of the "three centres" (i.e. financial centre, underwriting centre and claims management centre) and the quality of claims handling, and strengthened the management of data quality. Hence the refined management level had been continuously enhanced.

Active fulfilment of social responsibilities and remarkable enhancement of social influence: Advocating the philosophy of "the people's insurance is to serve and repay the people", the Company had made full use of the magnifying effects of the insurance mechanism on governmental fiscal fund and actively participating in the development of the new socialist rural areas. Emphasis was placed on the role of insurance in such areas as disaster relief, economic compensation, social stabilisation, safe production and community services. As the insurance partner of the Beijing 2008 Olympic Games, the Company hosted certain activities for the public good, including "Let's safeguard Beijing 2008 together".

The economy of the PRC will maintain a steady and rapid growth in 2008. A policy background and economic climate that are advantageous to the development of the PRC insurance industry are now taking shape, with the full social development focusing on improvement in people's quality of life, the progress in governmental institutional reform and in the development of the new socialist rural areas, and the transition of the ways of economic development. There are broad prospects for the insurance market for agriculture, rural areas and farmers. New insurance products such as catastrophe insurance and environmental liability insurance are likely to become new points of business growth. The channels for insurance capital utilisation are expected to be further widened. Moreover, the further identification of PICC Group's strategies and goals, the further progress in resources integration, the increasing intensification of business collaboration, the implementation of cross-sales and the structural expansion of PICC Group will together be paving the way for the Company to achieve substantial and rapid leapfrogging development.


Chairman Wu Yan (middle) visited the family of an employee of the Daxing Sub-branch of the Beijing Branch.

In 2008, under the guidance of the essence of the 17th CPC National Congress and by pursuing the principles of scientific development, the Company will deeply commit itself to establishing a harmonious society and will pragmatically accomplish the following key tasks. **Firstly**, the Company will persist in deepening its reform so as to further enhance its development capabilities. It will continue to explore new business operation models, launch a pilot project of business units reform, intensify the development of product lines, build up an advanced IT system, and further develop cross-sales with other subsidiaries of PICC Group. **Secondly**, the Company will continue to leverage the driving force of innovations to further improve its market development capabilities. The Company will increase efforts to expand the rural insurance market, push forward the expansion of decentralised business, build up specialised marketing teams, continue to increase the cooperation and interaction with the government and other organisations, develop headquarters-based marketing, and improve the capabilities of serving, maintaining and managing important clients. Efforts will also be made to promote and market the Olympics-related brand and fully carry out the Olympics protection scheme, with a view to enhancing the influence of the Company's brand. **Thirdly**, the Company will continue to pursue refined management in order to further improve its profitability. The Company will carry out integrated budget management, strengthen the practice of managing and reviewing the quality of underwriting and claims handling, advance the development of the third generation core business system, strengthen the centralisation of business processing at the provincial branch level, improve system and process evaluation, and pursue strict cost control on each business stage. **Fourthly**, the Company will continue to strengthen its internal control and compliance management so as to further improve its risk prevention capabilities. Efforts will be made to further the construction of execution capabilities, enhance compliance management, strengthen auditing and inspection, strictly follow the "six bans", refine the risk monitoring system, and prevent violations of laws and regulations. **Fifthly**, the Company will continue to be human-based, develop corporate culture, and enhance unity and cohesion of the Company. **Sixthly**, the Company will continue to fulfil its social responsibilities, bring into full play its key role of safeguarding and improving people's quality of life, improve its capabilities of facilitating the development of a harmonious society, so as to realise its development in the course of performing its social responsibilities.

Through pragmatic and effective efforts, the Company will strive to achieve substantial and rapid leapfrogging development, create greater value for the shareholders and make greater contributions to the development of a harmonious society.

Wu Yan
Chairman

Beijing, the PRC
15 April 2008

DIRECTORS

Wu Yan, age 47, Chairman of the Board of Directors, President of PICC Group, Chairman of the Board of Directors of PICC Life Insurance Company Limited and PICC Asset Management Company Limited, and a member of the 11th National Committee of the Chinese People's Political Consultative Conference. From 1985 to 1998, Mr Wu was the Deputy Secretary of the Communist Youth League of Xinjiang Autonomous Region, the Party Secretary of the Communist Party Committee of the city of Bole, a member of the Standing Committee of Beortalar Autonomous County Communist Party Committee, the Party Secretary of the Communist Youth League of Xinjiang Autonomous Region, and the Vice Minister of the Organisation Department of the Central Communist Youth League. Mr Wu was the Vice Minister of the United Front and Mass Work Department of the Central Finance League, the Party Secretary of the Central Finance League of the Communist Youth League and the President of the National Finance Youth Union from 1998 to 2003. Mr Wu was the Vice President of China Life Insurance (Group) Company from 2003 to January 2007, a Director and the President of China Life Insurance Asset Management Company Limited and a Non-executive Director of China Life Insurance Company Limited from 2003 to 2005. Mr Wu was an Executive Director and the President of China Life Insurance Company Limited from January 2006 to January 2007. Mr Wu graduated from Xinjiang College of Finance and Economics and the Graduate School of Chinese Academy of Social Sciences, respectively majoring in finance, international finance and applied economics, with a doctorate degree in economics.

Wang Yi, age 52, a senior economist, Vice Chairman of the Board of Directors, Executive Director, President and Chief Executive Officer of the Company, and Vice President of PICC Group. Mr Wang joined The People's Insurance Company of China ("PICC") in 1979 and was previously the Deputy General Manager of PICC Ningbo Branch, General Manager of PICC Hangzhou Branch, General Manager of PICC Zhejiang Branch and Deputy General Manager of PICC. Mr Wang graduated from Zhejiang Radio and Television University in 1986. He graduated from the Chinese Communist Party School with a bachelor's degree in economics and management in 2000 and a master's degree in political science in 2004. He has 29 years of operation and management experience in the PRC insurance industry. Mr Wang Yi resigned as Vice Chairman of the Board of Directors, Executive Director, President and Chief Executive Officer of the Company with effect from 22 April 2008. He also resigned as Vice President of PICC Group with effect from 18 April 2008.

Tse Sze-Wing, Edmund, GBS, age 70, Non-executive Director of the Company. Mr Tse is the Senior Vice Chairman of Life Insurance of American International Group, Inc. (AIG) as well as the Chairman and Chief Executive Officer of American International Assurance Company, Limited (AIA). He also holds various senior positions and directorships in other AIG companies around the world. In 2003, he was elected to the Insurance Hall of Fame, the most prestigious award in the global insurance industry. Mr Tse graduated with a bachelor's degree in Mathematics from The University of Hong Kong, which later conferred on him an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences. Mr Tse also holds diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has 47 years of extensive management experience in the insurance market, both in Asia and globally.

Cheng Wai Chee, Christopher, GBS, OBE, JP, age 60, Independent Non-executive Director of the Company. Mr Cheng is the Chairman of USI Holdings Limited, Winsor Properties Holdings Limited and Wing Tai Corporation Limited. He is also an Independent Non-executive Director of several listed and unlisted companies, including NWS Holdings Limited, New World China Land Limited, DBS Group Holdings Limited and Temasek Holdings. Mr Cheng plays an active role in public service. He currently serves as a Non-executive Director of the Board of the Securities and Futures Commission of the Government of the Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR Government"), and a member of the Exchange Fund Advisory Committee of the HKSAR Government. He served as the Chairman of the Hong Kong General Chamber of Commerce, the Chairman of the Competition Policy Review Committee and a Council member of the Hong Kong Trade Development Council. Mr Cheng also has a keen interest in the management of public affairs. He is the Chairman of the Standing Committee on Judicial Salaries and Conditions of Service of the HKSAR Government. As a long-serving former member of the Public Service Commission, he provided advice to the HKSAR Government on the formulation of human resources management policies and practices for civil service. Mr Cheng is also a Steward of the Hong Kong Jockey Club and a Council member of The University of Hong Kong. Mr Cheng holds a bachelor's degree in business administration from the University of Notre Dame, Indiana, USA, and a master's degree in business administration from Columbia University, New York. He was appointed as a Justice of the Peace in 1985, and was awarded an O.B.E. in 1992 and the Gold Bauhinia Star in 2004.

Lu Zhengfei, age 45, a professor and a supervisor of doctoral students, Independent Non-executive Director of the Company. Mr Lu is the Associate Dean of Guanghua School of Management, Peking University, a consultant to the China Accounting Standards Committee of the Ministry of Finance, a committee member and a member of the Academic Committee of the Chinese Accounting Association, a member of the Standing Committee of the Chinese Audit Association, and a member of the Chinese Tax Association and the Chinese Costing Research Institute. He is also a member of the Editorial Committee of Accounting Research and the Editorial Committee of Auditing Research. Mr Lu was elected into the "100 Outstanding Persons' Research Program" as a man of talent in social science theories in Beijing in 2001, and into the "New Century Excellent Scholarship Program" of the Ministry of Education of the PRC in 2005. Mr Lu graduated from Nanjing University with a doctorate degree in economics, and completed the post-doctoral research on economics (accounting) at Renmin University of China.

Luk Kin Yu, **Peter**, age 67, Independent Non-executive Director of the Company. Mr Luk is a fellow member of the Institute of Actuaries in England, Institute of Actuaries of Australia, and Society of Actuaries in the United States of America respectively. Mr Luk was the Chief Actuary of American International Assurance Co., Ltd., the Chief Financial Officer of the Pacific-Asia Division of Manufacturers Life Insurance Co. Ltd., the Appointed Actuary of Australian Casualty and Life Insurance Co. Ltd., the Principal Actuary of Mercer, Campbell, Cook & Knight, and an Executive Director and the Chief Financial Officer of Pacific Century Insurance Holdings Limited. Mr Luk is the founding president of the Actuarial Society of Hong Kong and was the President of that society for several sessions, a member of the Advisory Committee of Insurance, Financial and Actuarial Analysis of The Chinese University of Hong Kong, and the Chairman of the Advisory Committee of the Department of Mathematics of City University of Hong Kong. He is the Chief Executive Officer of Plan-B Consulting Limited. Mr Luk has substantial experience in the insurance industry.

Ding Ningning, age 60, Independent Non-executive Director of the Company. Mr Ding is the Director of the Social Development Research Department of the Development Research Centre ("DRC") of the State Council of the PRC, a member of the Academic Committee of the DRC, and a member of the China Energy Research Society and the China Association for Labor Studies. Mr Ding has been conducting research at the DRC for 26 years since 1982 and was the Director of the Enterprise Economic Research Department of the DRC from 1993 to 1998. He was a member of the Listed Company Supervisory Committee of China Securities Regulatory Commission from 1993 to 2000. Mr Ding graduated from Tsinghua University with a bachelor's degree in electric engineering. Mr Ding enrolled in the Chinese Communist Party School and graduated from its first doctorate course in economics. Mr Ding studied and conducted research on British economic history at The Centre of Chinese Study of Oxford University, England, and has substantial experience in the area of economic research.

Wu Gaolian, age 55, a senior economist, Non-executive Director of the Company, and Vice President of PICC Group. Mr Wu joined PICC in 1992 and was previously the General Manager of PICC Tonghua Branch in Jilin Province, General Manager of PICC Changchun Branch in Jilin Province, Deputy General Manager of PICC Jilin Branch, General Manager of PICC Guangxi Branch, and General Manager of PICC Liaoning Branch. Mr Wu is an economic management graduate of the Chinese Communist Party School, and completed the postgraduate program in banking at the China Academy of Social Sciences. He has 16 years of operation and management experience in the PRC insurance industry.

Zhou Shurui, age 55, a senior administrative engineer, Non-executive Director of the Company, and Vice President of PICC Group. Mr Zhou previously worked in the Hebei Provincial People's Government. Mr Zhou joined PICC in 1992 and was previously the Manager, Assistant General Manager, Deputy General Manager and General Manager of the Human Resources Department of PICC. Mr Zhou graduated from Hebei Normal University with a college diploma and a bachelor's degree, and completed the postgraduate program in banking at the Central University of Finance and Economics. He has 26 years of experience in management.

Wang Yincheng, age 47, a senior accountant, Executive Director, Executive Vice President and Chief Financial Officer of the Company. Mr Wang joined PICC in 1982 and was previously the Deputy General Manager of the Planning and Finance Department of PICC Property Insurance Company, General Manager of PICC Shenzhen Branch and Assistant General Manager of PICC. Mr Wang graduated from Zhongnan University of Economics and Law with a doctorate degree in economics. He has 26 years of experience in economic and financial management in the PRC insurance industry.

Liu Zhenghuan, age 57, a senior economist, Executive Director, Executive Vice President and Secretary of the Board of Directors of the Company. Ms Liu joined PICC in 1984 and was previously the Deputy Manager and Manager of the Operations Division of PICC Anhui Branch, Deputy General Manager and General Manager of PICC Anhui Branch, and General Manager of PICC Jiangsu Branch. Ms Liu graduated from Fudan University with a master's degree in economics. She has 24 years of operation and management experience in the PRC insurance industry.

Li Tao, age 41, Ph.D, a senior economist, Non-executive Director of the Company, and Senior Specialist of PICC Group. Mr Li lectured at Beijing University of Aeronautics and Astronautics. Mr Li joined PICC in 1998 and was previously the Manager of the Policy Research Division of the Research and Development Centre of PICC, Deputy General Manager of the Research and Development Centre and the Planning and Statistics Department of PICC, and Deputy General Manager and General Manager of the Secretariat of the Board of Directors of the Company. Mr Li graduated from Renmin University of China with a master's degree in philosophy in 1993, and from the Chinese Communist Party School with a doctorate degree in economics in 1998. He has 15 years of research and management experience.

SUPERVISORS

Ding Yunzhou, age 54, a senior economist, became the Chairman of the Supervisory Committee of the Company in October 2006. Mr Ding is a Vice President of PICC Group. Mr Ding joined PICC in 1977 and was previously the Deputy General Manager of the International Insurance Department of PICC, Chairman and General Manager of China Insurance (UK) Company Limited and Chief Representative of the London Representative Office of PICC, Assistant General Manager and Deputy General Manager of PICC, and a Non-executive Director of the Company from 2003 to 2006. Mr Ding graduated from Dalian University of Foreign Languages and has over 30 years of operation and management experience in the domestic and international insurance industries.

Li Dianjun, age 65, a university graduate, a researcher, became an Independent Supervisor of the Company in May 2006. Mr Li was previously a deputy county mayor of the regional government of the PRC, the Director-general of the Personnel Department of the Head Office of the People's Bank of China, and Vice President of Agricultural Bank of China. Mr Li was appointed by the State Council of the PRC as the Chairman of the Supervisory Committees of China Life Insurance Company, PICC Holding Company and China Reinsurance (Group) Company. Mr Li graduated from Northeast Normal University with a bachelor's degree in arts and has 25 years of operation and supervision experience in central bank, commercial banks and insurance companies.

Sheng Hetai, age 37, a senior economist, became a Supervisor of the Company in October 2006. Mr Sheng is the General Manager of the Strategic Planning Department of PICC Group. Mr Sheng joined PICC in 1998 and was previously the Manager of the Research Division of the Marketing Department of PICC, Deputy General Manager of the Products Development Centre of PICC, Deputy General Manager of the Research and Development Department, and General Manager of the Equity Capital Management Department and the Risk Management Department of PICC Holding Company. Mr Sheng graduated from Peking University with a doctorate degree in economics and has 10 years of management experience in the PRC insurance industry.

He Bangshun, age 57, a senior economist, became a Supervisor of the Company in October 2006. Mr He is the General Manager of the Beijing Monitoring and Auditing Centre of the Company. Mr He joined PICC in 1975 and was previously the Deputy Manager of the Fourth Division of the International Business Department of PICC, Manager of the Marketing Development Division and Manager of the Import and Export Cargo Transportation Insurance Division of that department. Mr He was also the Deputy General Manager of The Ming An Insurance Company (Hong Kong) Limited, Deputy General Manager of China Reinsurance Company (Hong Kong) Limited, Deputy General Manager and General Manager of the Reinsurance Department of PICC, and General Manager of the Audit Department of the Company. Mr He graduated from Beijing International Studies University and has over 30 years of operation and management experience in the domestic and foreign insurance industries.

OTHER SENIOR MANAGEMENT

Guo Shengchen, age 53, a university graduate and a senior economist, Executive Vice President of the Company. Mr Guo joined PICC in 1984 and was previously the Assistant General Manager, Deputy General Manager and General Manager of PICC Beijing Branch. He has 34 years of operation and management experience in the PRC financial and insurance industries.

Zhao Shuxian, age 56, a university graduate and a senior economist, Executive Vice President of the Company. Ms Zhao joined PICC in 1978 and was previously the Deputy General Manager of the Operations Department and General Manager of the Special Risk Insurance Department of PICC Property Insurance Company, and Chief Representative of the European Representative Office of PICC. She has 30 years of operation and management experience in the PRC insurance industry.

Jia Haimao, age 54, a senior economist, Executive Vice President of the Company, and General Manager of the Jiangsu Branch of the Company. Mr Jia joined PICC in 1984 and was the Deputy General Manager and General Manager of the Motor Vehicle Insurance Department of PICC. He has 24 years of operation and management experience in the PRC insurance industry.

Wang He, age 51, Ph.D, a senior economist, Executive Vice President of the Company. Mr Wang joined PICC in 1988 and was the Manager of the Operations Department of PICC Fujian Branch, Deputy General Manager of PICC Xiamen Branch and Deputy Executive General Manager of the Products Development Centre of PICC. He has 20 years of operation and management experience in the PRC insurance industry.

OVERVIEW

The Company is a leading non-life insurance company in the PRC providing a broad range of property and casualty insurance products together with accidental injury insurance and short-term health insurance products for customers. In 2007, with the continuous rapid growth of the economy in China, the Company and its subsidiaries achieved a turnover of RMB88,668 million and a net profit of RMB2,991 million, an increase of 24.3% and 43.7% respectively as compared to 2006. The total assets reached RMB134,265 million, and its shareholders' equity totalled RMB26,078 million. The Company held 42.5% share of the non-life insurance market in the PRC in 2007, demonstrating an increasing vitality.

I. Substantial improvement in operating results

In 2007, the Company's turnover surpassed RMB88,000 million for the first time, and its net profit reached a record high. The strong performance of the Company in 2007 was primarily attributable to the rapid growth in turnover and the better investment return, particular in light of the bullish A-share market in China and the higher bank deposit rates.

President Wang Yi (left) was offering the letter of appointment to the famous artist Pu Cunxin as the image representative of the PICC P&C Olympic Games.

II. Further expansion of insurance coverage and reinforced market dominance

In 2007, the Company made continuous efforts in developing the compulsory third party motor insurance business, carried out at full strength the agricultural and rural insurance business, and further reinforced its market dominance in large-scale commercial property insurance and special risk insurance sectors. In 2007, the Company won the position of chief underwriter in a number of major benchmark projects, including all the twelve subway projects across the country, Hongyanhe Nuclear Power Plant in Liaoning Province, and the pilot ultra high-voltage grid construction works of the State Grid Corporation. The Company also became the global insurance partner of the World Expo 2010 Shanghai. With the launch of the insurance protection scheme for the Olympic Games, the Company's service capabilities and influence have been continuously enhanced.

President Wang Yi (middle), Vice President Liu Zhenghuan (fifth from the left) and the leaders of Shenhua Company at the signing ceremony of the Company's becoming the chief underwriter of the Shenhua Baotou Alkene Coal-made Project, a large underwriting project.

III. Strengthened channel construction and enhanced marketing capability

In 2007, the Company strengthened the strategic collaboration with other subsidiaries of PICC Group, and promoted cross-sales in an orderly manner. The Company set up an e-commerce system across the country, and invested RMB200 million in expanding the rural insurance sales network. The Company has more than 11,000 sales offices in the rural areas. In 2007, the Company strengthened the development of its professional teams. It set up more than 200 professional teams specializing in large-scale commercial insurance and a number of professional teams focusing on cargo insurance, liability insurance and accidental injury insurance, covering more than thirty industry sectors, at both headquarters and provincial branch levels.

OVERVIEW *(continued)*

IV. Strengthened risk management and control and improved operation management

In 2007, the Company established six regional monitoring and auditing centres by region, built and refined the compliance management system and strengthened internal risk management and control. The company reinforced its risk management in respect of reinsurance, optimised the allocation of resources for reinsurance and strove to improve the quality of the contracts. The Company also promoted and implemented the Pure Risk Loss Ratio Table comprehensively.

The following table sets forth the net premiums earned, underwriting profit, profit attributable to equity holders of the parent and total assets of the Company and its subsidiaries for the relevant periods.

	Year ended 31 December	
	2007	2006
	RMB million	*RMB million*
Net premiums earned	68,728	55,616
Underwriting profit/(loss)	(1,427)	604
Profit attributable to equity holders of the parent	2,991	2,082
Total assets	134,265	106,974

RESULTS OF OPERATIONS

In 2007, the turnover of the Company and its subsidiaries increased significantly, underwriting profit decreased, and investment gains increased remarkably. The following table sets forth selected financial ratios shown as percentages of net premiums earned for the relevant periods.

	Year ended 31 December	
	2007	2006
	%	*%*
Net premiums earned	100.0	100.0
Net claims incurred	(68.3)	(69.4)
Amortisation of deferred acquisition costs, net	(16.2)	(16.0)
Insurance protection expenses	(1.1)	(1.1)
General and administrative expenses	(16.5)	(12.4)
Underwriting profit/(loss)	(2.1)	1.1
Net investment income	4.7	3.0
Net realised and unrealised gains on investments	6.5	4.3
Finance costs	(0.5)	(0.4)
Interest expenses credited to policyholders' deposits	(0.4)	(0.2)
Profit before tax	6.5	6.8
Tax	(2.1)	(3.1)
Profit attributable to equity holders of the parent	4.4	3.7
Loss ratio	68.3	69.4
Expense ratio	33.8	29.5
Combined ratio	102.1	98.9

RESULTS OF OPERATIONS *(continued)*

The following table sets forth the net premiums earned, net claims incurred and net amortisation of deferred acquisition costs by segment, analysed as a percentage of the respective aggregate amount, of the Company and its subsidiaries for the relevant periods.

	Year ended 31 December	
	2007	2006
	%	%
Net premiums earned		
Motor vehicle insurance	77.5	74.6
Commercial property insurance	8.3	10.3
Cargo insurance	3.3	3.7
Liability insurance	3.7	3.9
Accidental injury insurance	2.7	3.3
Other insurance	4.5	4.2
Total	100	100
Net claims incurred		
Motor vehicle insurance	77.3	78.5
Commercial property insurance	9.3	10.6
Cargo insurance	2.2	1.9
Liability insurance	3.4	2.9
Accidental injury insurance	2.4	2.6
Other insurance	5.4	3.5
Total	100	100
Amortisation of deferred acquisition costs, net		
Motor vehicle insurance	80.3	78.1
Commercial property insurance	7.5	9.1
Cargo insurance	3.0	3.5
Liability insurance	3.5	3.5
Accidental injury insurance	2.3	2.9
Other insurance	3.4	2.9
Total	100	100

TURNOVER

Turnover of the Company and its subsidiaries was RMB88,668 million in 2007, representing an increase of RMB17,320 million, or 24.3%, over RMB71,348 million in 2006. The increase was primarily due to the significant growth of the compulsory third party motor insurance business launched in July 2006. Driven by this business, the turnover of the motor vehicle insurance segment increased by RMB12,151 million from 2006. The turnover of non-motor vehicle insurance segments such as commercial property insurance, cargo insurance, liability insurance and accidental injury insurance segments also experienced growth at varied degrees.

NET PREMIUMS EARNED

Net premiums earned of the Company and its subsidiaries was RMB68,728 million in 2007, representing an increase of RMB13,112 million, or 23.6%, from RMB55,616 million in 2006. This increase in net premiums earned was primarily due to a rapid increase in net premiums earned from the motor vehicle insurance segment in 2007. Net premiums earned from the motor vehicle insurance segment increased by RMB11,771 million from that in 2006.

NET INVESTMENT INCOME

Net investment income of the Company and its subsidiaries was RMB3,229 million in 2007, representing an increase of RMB1,540 million over RMB1,689 million in 2006. This increase was primarily due to the increase of RMB895 million in interest and dividend income from trading financial assets, the increase of RMB479 million in interest and dividend income from available-for-sale financial assets and the increase of RMB152 million in interest income from loans and receivables.

NET REALISED AND UNREALISED GAINS ON INVESTMENTS

Net realised and unrealised gains on investments of the Company and its subsidiaries was RMB4,442 million in 2007, representing an increase of RMB2,070 million from RMB2,372 million in 2006. This increase was primarily due to the A-share market boom in 2007, which led to a substantial increase in realised gains on investments in available-for-sale financial assets and trading financial assets.

The Company's 95518 Call Center consecutively be awarded "China Best Contact Center".

NET CLAIMS INCURRED

Net claims incurred of the Company and its subsidiaries was RMB46,944 million in 2007, representing an increase of RMB8,328 million, or 21.6%, from RMB38,616 million in 2006. Loss ratio of the Company and its subsidiaries declined to 68.3% in 2007 from 69.4% in 2006. The increase in net claims incurred was primarily due to an increase in claims brought about by the increase in turnover of the Company and its subsidiaries. The net loss and loss adjustment expense reserves as of 31 December 2007 increased by RMB5,841 million as compared to 31 December 2006.

AMORTISATION OF DEFERRED ACQUISITION COSTS, NET

Net amortisation of deferred acquisition costs of the Company and its subsidiaries was RMB11,151 million in 2007, representing an increase of 25.5% over RMB8,882 million in 2006. This increase was primarily due to a rapid expansion of business scale and the corresponding increase in underwriting expenses in 2007.

INSURANCE PROTECTION EXPENSES

According to the relevant PRC insurance laws and regulations, the Company and its subsidiaries are required to accrue an insurance protection fund based on 1% of their retained premiums. Insurance protection expenses of the Company and its subsidiaries was RMB749 million in 2007, representing an increase of 22.8% from RMB610 million in 2006. The increase was due to an increase in retained premiums.

INTEREST EXPENSES CREDITED TO POLICYHOLDERS' DEPOSITS

Interest expenses of the Company and its subsidiaries credited to policyholders' deposits was RMB248 million in 2007, representing an increase from RMB138 million in 2006. This was primarily due to the fact that the income payable to policyholders in respect of the Golden Bull investment-type homeowners insurance products (third generation) and Golden Baby investment-type accidental injury insurance products of the Company and its subsidiaries was calculated using floating interest rates. In 2007, with the several rounds of deposit rate hikes, the Company and its subsidiaries underwent an increase in interest expenses.

FINANCE COSTS

Finance costs of the Company and its subsidiaries was RMB315 million in 2007, representing an increase of RMB106 million over RMB209 million in 2006. Such increase was primarily due to an increase in the interest expenses on securities sold under agreements to repurchase as compared to 2006.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the Company and its subsidiaries were RMB11,311 million in 2007, representing an increase of RMB4,407 million from RMB6,904 million in 2006. This increase was primarily due to the following reasons: more funds were invested in the construction of distribution channels so as to achieve the rapid growth of businesses in the intensified market competition; secondly, special remuneration was granted as an incentive for the front-line staff; furthermore, in light of the rapid business growth, the Company increased expenditure on business operations and property-related expenses and office expenses accordingly so as to ensure service quality and efficiency.

President Wang Yi (third from the right), Vice Presidents Guo Shengchen (second from the left) and Wang He (first from the right) of the Company took photos with the honorable drawing guests at the 3rd lucky draw, part of the Company's "Watching Beijing Olympic Games along with PICC P&C" grand luck draw for thousands of Olympic Games tickets.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB4,456 million in 2007, representing an increase of RMB656 million from RMB3,800 million in 2006.

TAX

Income tax expenses of the Company and its subsidiaries was RMB1,465 million in 2007, representing a decrease of RMB253 million from RMB1,718 million in 2006. The Company and its subsidiaries' effective tax rate decreased to 32.9% in 2007 from 45.2% in 2006. The major reason for such decrease was due to the reduction in the applicable corporate income tax rate from 33% to 25% since 1 January 2008. The Company reduced the tax rate used in determining the deferred tax assets and liabilities as at the end of 2007.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

As a result of the foregoing, net profit of the Company and its subsidiaries was RMB2,991 million in 2007, representing an increase of RMB909 million from RMB2,082 million in 2006. Basic earnings per share attributable to equity holders of the parent in 2007 was RMB0.268.

COMBINED RATIO

The combined ratio of the Company and its subsidiaries increased from 98.9% in 2006 to 102.1% in 2007, primarily due to an increase in the Company and its subsidiaries' expense ratio from 29.5% in 2006 to 33.8% in 2007. The relatively rapid increase in expense ratio was due to the intensified market competition and hence an increase in expenditure on basic expenses and provision of quality service.

RESULTS OF SEGMENT OPERATIONS

Motor Vehicle Insurance

	Year ended 31 December	
	2007	2006
	RMB million	*RMB million*
Turnover	**61,988**	49,837
Net premiums earned	**53,273**	41,502
Net claims incurred	**(36,283)**	(30,295)
Amortisation of deferred acquisition costs, net	**(8,954)**	(6,935)
Insurance protection expenses	**(576)**	(467)
Segment profit before general and administrative expenses	**7,460**	3,805
Loss ratio	**68.1%**	73.0%
Expense ratio	**17.9%**	17.8%
Combined ratio	**86.0%**	90.8%

RESULTS OF SEGMENT OPERATIONS *(continued)*

Motor Vehicle Insurance *(continued)*

Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB61,988 million in 2007, representing an increase of RMB12,151 million, or 24.4%, from RMB49,837 million in 2006. This increase was primarily due to the growth of the compulsory third party motor insurance business.

Net premiums earned from the motor vehicle insurance segment of the Company and its subsidiaries was RMB53,273 million in 2007, representing an increase of RMB11,771 million, or 28.4%, from RMB41,502 million in 2006. This increase was primarily due to a relatively rapid growth in turnover in 2007. However, the effect of the foregoing was partially offset by an increase of RMB1,253 million in reinsurance premiums ceded as compared to 2006.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB36,283 million in 2007, representing an increase of RMB5,988 million, or 19.8%, from RMB30,295 million in 2006. Loss ratio decreased to 68.1% in 2007 from 73.0% in 2006. The slower increase in net claims incurred as compared to the pace of business scale development reflected a significant enhancement in business quality.

Net amortisation of deferred acquisition costs of the motor vehicle insurance segment of the Company and its subsidiaries was RMB8,954 million in 2007, representing an increase of 29.1% from RMB6,935 million in 2006. This increase was primarily due to an increase in the income from motor vehicle insurance segment and the corresponding increase in commission expenses, underwriting expenses, and government levies and surcharges.

Insurance protection expenses charged to the motor vehicle insurance segment of the Company and its subsidiaries increased by 23.3% from RMB467 million in 2006 to RMB576 million in 2007 due to an increase in retained premiums.

The expense ratio of the motor vehicle insurance segment of the Company and its subsidiaries increased from 17.8% in 2006 to 17.9% in 2007. The impact of the increase in net amortisation of deferred acquisition costs on the expense ratio was offset by the substantial increase in net premiums earned.

As a result of the foregoing, profit before general and administrative expenses of the motor vehicle insurance segment of the Company and its subsidiaries was RMB7,460 million in 2007, representing an increase of 96.1% compared to RMB3,805 million in 2006.

RESULTS OF SEGMENT OPERATIONS *(continued)*

Commercial Property Insurance

	Year ended 31 December	
	2007	2006
	RMB million	*RMB million*
Turnover	8,941	8,193
Net premiums earned	5,689	5,747
Net claims incurred	(4,347)	(4,074)
Amortisation of deferred acquisition costs, net	(836)	(805)
Insurance protection expenses	(59)	(55)
Segment profit before general and administrative expenses	447	813
Loss ratio	76.4%	70.9%
Expense ratio	15.7%	15.0%
Combined ratio	92.1%	85.9%

Turnover of the commercial property insurance segment of the Company and its subsidiaries increased by RMB748 million, or 9.1%, from RMB8,193 million in 2006 to RMB8,941 million in 2007, primarily due to the stipulation of effective incentive policy and the strengthening of business supervision.

Net premiums earned from the commercial property insurance segment of the Company and its subsidiaries decreased by RMB58 million, or 1.0%, from RMB5,747 million in 2006 to RMB5,689 million in 2007, primarily due to a RMB411 million increase in reinsurance premiums ceded for commercial property insurance in 2007 as compared to 2006. Also, the decline of this insurance segment in 2006 resulted in a corresponding increase of RMB395 million in the changes in net unearned premium reserves in 2007.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries increased by RMB273 million from RMB4,074 million in 2006 to RMB4,347 million in 2007. The claim expenses and the claim expenses recovered decreased by RMB335 million and RMB175 million, respectively, and the changes in net loss and loss adjustment expense reserves increased by RMB433 million.

Net amortisation of deferred acquisition costs of the commercial property insurance segment of the Company and its subsidiaries increased from RMB805 million in 2006 to RMB836 million in 2007, primarily due to the increase in government levies and surcharges and the underwriting expenses.

Insurance protection expenses charged to the commercial property insurance segment of the Company and its subsidiaries increased from RMB55 million in 2006 to RMB59 million in 2007, due to an increase in retained premiums.

Due to the slight decrease in net premiums earned and the slight increase in deferred acquisition costs in 2007, the expense ratio of the commercial property insurance segment of the Company and its subsidiaries increased from 15.0% in 2006 to 15.7% in 2007.

As a result of the foregoing, profit before general and administrative expenses of the commercial property insurance segment of the Company and its subsidiaries was RMB447 million in 2007, representing a decrease of 45.0% compared to RMB813 million in 2006.

RESULTS OF SEGMENT OPERATIONS *(continued)*

Cargo Insurance

	Year ended 31 December	
	2007	2006
	RMB million	*RMB million*
Turnover	2,990	2,763
Net premiums earned	2,271	2,073
Net claims incurred	(1,016)	(744)
Amortisation of deferred acquisition costs, net	(334)	(315)
Insurance protection expenses	(23)	(21)
Segment profit before general and administrative expenses	898	993
Loss ratio	44.7%	35.9%
Expense ratio	15.7%	16.2%
Combined ratio	60.4%	52.1%

Turnover of the cargo insurance segment of the Company and its subsidiaries increased by RMB227 million, or 8.2%, from RMB2,763 million in 2006 to RMB2,990 million in 2007, primarily due to the increase in the sources of insurance business and insured amount driven by the increase in trade and prices of domestic commodities and the increase in prices of energy and raw materials in the international market.

Net premiums earned from the cargo insurance segment of the Company and its subsidiaries increased by RMB198 million, or 9.6%, from RMB2,073 million in 2006 to RMB2,271 million in 2007, primarily due to an increase in income from insurance business.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries increased by 36.6% from RMB744 million in 2006 to RMB1,016 million in 2007. The changes in net loss and loss adjustment expense reserves increased by RMB233 million as compared to 2006. The loss ratio of the cargo insurance segment increased from 35.9% in 2006 to 44.7% in 2007. The increase was primarily due to intensified business competition, decrease in premium rates and an increase in risk per unit premium.

Net amortisation of deferred acquisition costs of the cargo insurance segment of the Company and its subsidiaries increased by RMB19 million from RMB315 million in 2006 to RMB334 million in 2007, primarily due to the increase in underwriting expenses.

Insurance protection expenses charged to the cargo insurance segment of the Company and its subsidiaries was RMB23 million in 2007, close to that in 2006, primarily due to the slight changes in the retained premiums of the cargo insurance segment in 2007 compared to that in 2006.

The expense ratio of the cargo insurance segment of the Company and its subsidiaries decreased from 16.2% in 2006 to 15.7% in 2007, primarily due to the increase in net premiums earned.

As a result of the foregoing, profit before general and administrative expenses of the cargo insurance segment of the Company and its subsidiaries was RMB898 million in 2007, representing a decrease of 9.6% compared to RMB993 million in 2006.

RESULTS OF SEGMENT OPERATIONS *(continued)*

Liability Insurance

	Year ended 31 December	
	2007	2006
	RMB million	*RMB million*
Turnover	3,640	3,013
Net premiums earned	2,534	2,160
Net claims incurred	(1,603)	(1,123)
Amortisation of deferred acquisition costs, net	(387)	(309)
Insurance protection expenses	(27)	(23)
Segment profit before general and administrative expenses	517	705
Loss ratio	63.3%	52.0%
Expense ratio	16.3%	15.4%
Combined ratio	79.6%	67.4%

Turnover of the liability insurance segment of the Company and its subsidiaries was RMB3,640 million in 2007, representing an increase of RMB627 million, or 20.8%, from RMB3,013 million in 2006. This increase was primarily due to the increase in the turnover of the key products including carrier's liability insurance, school's liability insurance, employer's liability insurance, product liability insurance, and public liability insurance for fire.

Net premiums earned from the liability insurance segment of the Company and its subsidiaries was RMB2,534 million in 2007, representing an increase of RMB374 million, or 17.3%, from RMB2,160 million in 2006. This increase was primarily due to the increased turnover.

Net claims incurred of the liability insurance segment of the Company and its subsidiaries was RMB1,603 million in 2007, representing an increase of 42.7% from RMB1,123 million in 2006. This was primarily due to an increase of RMB375 million and RMB137 million in claim expenses and the changes in net loss and loss adjustment expense reserves compared to 2006, respectively. The loss ratio of the liability insurance segment increased from 52.0% in 2006 to 63.3% in 2007.

Net amortisation of deferred acquisition costs of the liability insurance segment of the Company and its subsidiaries was RMB387 million in 2007, representing an increase of RMB78 million from RMB309 million in 2006. This was primarily due to the increase in government levies and surcharges and the underwriting expenses as a result of the business growth.

PICC P&C won the "China Best Logistics Brand Insurance Company 2007" award.

Insurance protection expenses charged to the liability insurance segment of the Company and its subsidiaries was RMB27 million in 2007, representing an increase of RMB4 million, or 17.4%, from RMB23 million in 2006. This was primarily due to an increase in retained premiums in 2007.

The expense ratio of the liability insurance segment of the Company and its subsidiaries increased from 15.4% in 2006 to 16.3% in 2007.

As a result of the foregoing, profit before general and administrative expenses of the liability insurance segment of the Company and its subsidiaries was RMB517 million in 2007, representing a decrease of 26.7% compared to RMB705 million in 2006.

RESULTS OF SEGMENT OPERATIONS *(continued)*

Accidental Injury Insurance

	Year ended 31 December	
	2007	2006
	RMB million	*RMB million*
Turnover	2,874	2,561
Net premiums earned	1,838	1,827
Net claims incurred	(1,133)	(1,004)
Amortisation of deferred acquisition costs, net	(253)	(262)
Insurance protection expenses	(18)	(18)
Segment profit before general and administrative expenses	434	543
Loss ratio	61.6%	55.0%
Expense ratio	14.7%	15.3%
Combined ratio	76.3%	70.3%

Turnover of the accidental injury insurance segment of the Company and its subsidiaries was RMB2,874 million in 2007, representing an increase of RMB313 million, or 12.2%, from RMB2,561 million in 2006. This increase was primarily due to the relatively rapid increase in the number of insurance policies underwritten.

Vice President Wang Yincheng (middle) was signing the Obligation Agreement with the branches' representatives at the Specialty Work Conference on accidental injury and health insurance.

Net premiums earned from the accidental injury insurance segment of the Company and its subsidiaries was RMB1,838 million in 2007, representing an increase of RMB11 million, or 0.6%, from RMB1,827 million in 2006. Increase in turnover was at a similar level with that in reinsurance premiums ceded.

Net claims incurred of the accidental injury insurance segment of the Company and its subsidiaries was RMB1,133 million in 2007, representing an increase of 12.8% from RMB1,004 million in 2006. This was primarily due to an increase in the turnover of insurance business. The loss ratio of the accidental injury insurance segment increased from 55.0% in 2006 to 61.6% in 2007.

Net amortisation of deferred acquisition costs of the accidental injury insurance segment of the Company and its subsidiaries was RMB253 million in 2007, representing a decrease of RMB9 million from RMB262 million in 2006. This was primarily due to the fact that the increase in reinsurance commission recovered was offset by the increase in commission expenses paid to insurance intermediaries and agents and the increase in government levies and surcharges.

Insurance protection expenses charged to the accidental injury insurance segment of the Company and its subsidiaries was RMB18 million in 2007, close to that in 2006, as there was basically no change in the retained premiums of the accidental injury insurance segment in 2007.

The expense ratio of the accidental injury insurance segment of the Company and its subsidiaries decreased to 14.7% in 2007 from 15.3% in 2006.

As a result of the foregoing, profit before general and administrative expenses of the accidental injury insurance segment of the Company and its subsidiaries was RMB434 million in 2007, representing a decrease of 20.1% compared to RMB543 million in 2006.

DEVELOPMENT OF NEW PRODUCTS

In 2007, the Company developed a total of 640 new insurance products, covering 14 insurance categories other than mandatory insurance and investment-type insurance. Amongst all new insurance products, 345 products were national products and 295 products were regional products.

CASH FLOW

	Year ended 31 December	
	2007	2006
	RMB million	*RMB million*
Net cash inflow from operating activities	11,259	5,324
Net cash outflow from investing activities	(4,833)	(912)
Net cash inflow/(outflow) from financing activities	(2,718)	1,299
Net increase in cash and cash equivalents	3,708	5,711

Net cash inflow generated from the operating activities of the Company and its subsidiaries was RMB11,259 million in 2007, representing an increase of RMB5,935 million over 2006. This was primarily due to an increase of RMB14,431 million in received cash premiums over 2006. However, this effect was partially offset by an increase of RMB4,689 million in claim expenses paid in cash.

Net cash outflow from the investing activities of the Company and its subsidiaries was RMB4,833 million in 2007, representing an increase of RMB3,921 million compared to 2006. Such increase was primarily due to the decrease of RMB3,872 million in the deposits with banks or other financial institutions with a maturity of three months or longer and other deposits of the same type, and the substantial decrease in the new fixed term deposits and bank deposit reserves compared to 2006, which were used to meet the capital needs for investment.

Net cash outflow from the financing activities of the Company and its subsidiaries was RMB2,718 million in 2007, while the net cash inflow from such activities in 2006 was RMB1,299 million. This was primarily due to the increase of RMB1,000 million in net cash inflow from the financing activities as a result of the issuance of subordinated debts in 2006, while the interim dividend of RMB1,014 million and policyholders' deposits and investment amount of RMB1,189 million were paid in 2007, the combination of the latter two gave rise to an increase of RMB2,510 million in net cash outflow compared to 2006.

Net increase in cash and cash equivalents (mainly in RMB) of the Company and its subsidiaries in 2007 was RMB3,708 million.

LIQUIDITY

The cash flow of the Company and its subsidiaries is primarily derived from cash generated from operating activities, and, in particular, cash from insurance premiums received. Additional liquidity sources include interest and dividend income, proceeds from matured investments, disposal of assets and financing activities. The liquidity requirements of the Company and its subsidiaries consist principally of the payment of claims and other obligations under outstanding insurance policies, capital expenditures, operating expenses, tax payments, dividend payments and investment needs.

The Company issued the fixed-rate subordinated debts of RMB3,000 million with a term of 10 years to institutional investors in the PRC in December 2006 for the primary purpose of increasing the Company's solvency.

The Company obtained a 10-year revolving credit facility from China Development Bank for up to RMB10 billion in 2003. Each drawdown made under this facility is repayable within one year. As of the date of this report, no amount has been drawn down under that facility.

Save for the subordinated debts and the credit facility mentioned above, the Company and its subsidiaries did not obtain working capital by borrowing.

The Company and its subsidiaries expect that they can fund their working capital needs in the future from cash generated from operating activities. The Company considers that the Company and its subsidiaries have sufficient working capital.

CAPITAL EXPENDITURE

The capital expenditure of the Company and its subsidiaries has primarily been for property construction, acquisition of motor vehicles for business needs and development of information system. Capital expenditure of the Company and its subsidiaries was RMB890 million in 2007.

SOLVENCY MARGIN REQUIREMENT

The Company is subject to a number of laws and regulations regarding financial operations, including maintaining a stipulated solvency margin, complying with 11 regulatory benchmarks and providing for certain funds and reserves. In accordance with the insurance laws and regulations in the PRC, the Company was required to maintain a minimum solvency margin of RMB11,235 million on 31 December 2007. The Company's actual solvency margin calculated pursuant to the regulations of the China Insurance Regulatory Commission ("CIRC") was RMB21,243 million and solvency margin adequacy ratio was 189% (Note).

Pursuant to the CIRC regulations, if an insurance company fails to meet 4 out of the 11 benchmarks regarding solvency, the CIRC has the right to demand an explanation and investigate into the reasons for non-compliance. In 2007, the Company failed to meet fewer than four of such benchmarks.

Note: The calculation was based on the financial statements prepared under the PRC Accounting Standards for Business Enterprises.

PREMIUM TO CAPITAL RATIO

The premium to capital ratio is the ratio of retained premiums in any financial year to the sum of paid-in capital, capital reserve and surplus reserve. Pursuant to the Insurance Law, this premium to capital ratio may not exceed 4 times for any property and casualty insurance company in any financial year. The premium to capital ratio for the Company in 2007 was 3.66 times (Note).

Note: The calculation was based on the financial statements prepared under the PRC Accounting Standards for Business Enterprises.

GEARING RATIO

As of 31 December 2007, the gearing ratio (Note) of the Company and its subsidiaries was 78.3%, representing an increase of 0.5 percentage points from 77.8% as of 31 December 2006.

Note: Gearing ratio is represented by total liabilities (excluding subordinated debts) divided by total assets under accounting principles generally accepted in Hong Kong.

CONTINGENT LIABILITIES

Owing to the nature of the insurance business, the Company and its subsidiaries are involved in legal proceedings related to its ordinary course of business, as plaintiff or defendant. Such legal proceedings mostly involve claims on the insurance policies of the Company and its subsidiaries. While the outcomes of such contingencies or legal proceedings cannot be determined at present, the Company and its subsidiaries believe that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Company and its subsidiaries.

INTEREST RATE RISK

The holdings of the Company and its subsidiaries in fixed income investments or fixed interest rate liabilities are subject to interest rate risk. Fixed income investments include primarily the holdings of the Company and its subsidiaries in fixed term deposits, negotiated deposits and debt securities measured at fair value. The Company and its subsidiaries also invest in a certain number of interest rate-sensitive products and derivative financial instruments.

The Company and its subsidiaries ensure stable returns by managing exposure to risks associated with interest rate fluctuations through interest rate swaps, active review of the investment portfolio and consultation with financial investment experts, and by adopting appropriate investment strategies.

CREDIT RISK

Credit risk is the risk of an economic loss incurred by the Company and its subsidiaries resulting from the inability of debtors of the Company and its subsidiaries to make any principal or interest payment when due.

The accounts receivable for insurance assets, reinsurance assets, debt securities and deposits with commercial banks of the Company and its subsidiaries are subject to credit risk.

The Company and its subsidiaries continuously strengthened the management of premiums receivable by making regular analysis and evaluation of clients' credit and financial status, intensely monitoring the recoverability of premiums receivable, and by working closely with insurance intermediaries so as to reduce credit risks in insurance businesses.

The Company and its subsidiaries are also subject to credit risk with respect to amounts owed to them by their reinsurers. Except when dealing with national reinsurers such as China Property and Casualty Reinsurance Company Ltd., the Company and its subsidiaries purchase reinsurance primarily from reinsurers with A.M. Best ratings of A- or above, and pay particular attention to their creditworthiness and financial condition.

The Company and its subsidiaries diligently manage credit risk in debt securities by analysing the creditworthiness of companies prior to making investments and by strictly conforming to the regulation laid down by the CIRC which permits investments in corporate bonds with rating higher than AA only.

The Company and its subsidiaries manage and lower credit risk affecting their bank deposits mainly by depositing most of their deposits with state-owned or state-controlled commercial banks.

EXCHANGE RATE RISK

The Company and its subsidiaries conduct their business primarily in Renminbi, which is also their functional and financial reporting currency.

A portion of their business (including a portion of commercial property insurance, international cargo insurance and aviation insurance) is conducted in foreign currencies, primarily US dollars. The Company and its subsidiaries are also subject to exchange rate risk with respect to their holdings in certain assets such as bank deposits, debt securities and certain insurance liabilities which are denominated in foreign currencies, primarily US dollars.

INTEREST RATE SWAPS

The Company's financial assets which bear interests at different rates would generate uncertain cash flow. As such, interest rate swap contracts are used by the Company to hedge against such interest rate risk whereby fixed interests are received from, and floating interests are paid to, the counterparties. As of 31 December 2007, the interest rate swap contracts held by the Company had a total notional amount of RMB850 million.

INVESTMENT IN ASSOCIATE

In June 2007, the Company contributed RMB812 million to the registered capital of PICC Life Insurance Company Limited, a fellow subsidiary of the Company, thereby holding 28% of its equity interests. The Directors believe that such transaction will bring to the Company the long-term benefit from the development of China's life insurance sector and help promoting the cross-sales business.

EMPLOYEES

As of 31 December 2007, the Company had 60,102 employees. Staff remuneration payment by the Company and its subsidiaries in 2007 was RMB6,085 million, which included basic salaries, performance-related bonus, and various insurance and benefit contributed in accordance with the relevant PRC regulations. Senior management of the Company were entitled to share appreciation rights. No shares will be issued under the scheme, therefore the shareholdings of shareholders will not be diluted. The Company and its subsidiaries enhanced the performance and work efficiency of employees by providing various career development paths, strengthening personnel training and implementation of performance appraisal. The Company is of the view that the Company and its subsidiaries maintain a good relationship with their employees.

The Board of Directors presents its report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2007 (the "Year").

PRINCIPAL ACTIVITIES

The Company engages in motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, hull insurance, agriculture insurance, surety insurance, which are denominated in RMB and foreign currencies, together with the reinsurance of the above insurance products, and investment and fund application business permitted under the relevant laws and regulations of the PRC. The Company's subsidiaries mainly engage in providing insurance agency services and training services for the Company.

FINANCIAL RESULTS AND DIVIDEND

The results of the Company and its subsidiaries for the Year and the state of financial affairs of the Company and its subsidiaries as at 31 December 2007 are set out on pages 50 to 129 of this annual report.

The Company made the payment of an interim dividend of RMB0.091 per share on 3 October 2007. The Board of Directors did not propose any final dividend for the Year.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Company and its subsidiaries for the last five financial years is set out in the "Financial Summary" section of this annual report.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the property, plant and equipment and investment properties of the Company and its subsidiaries during the Year are set out in notes 27 and 28 to the financial statements respectively.

SHARE CAPITAL

There were no movements in the share capital of the Company during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions regarding pre-emptive rights in respect of the transfer of shares or issue of new shares of joint stock limited companies under the Company Law of the People's Republic of China ("Company Law").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the Year.

RESERVES

Details of the reserves of the Company and its subsidiaries and their changes during the Year are set out in the "Consolidated Statement of Changes in Equity" section of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's distributable reserves totaled RMB1,079 million based on the PRC Accounting Standards for Business Enterprises.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year amounted to RMB24.58 million.

MAJOR CUSTOMERS

The aggregate turnover of the Company and its subsidiaries with their five largest customers did not exceed 10% of the total turnover of the Company and its subsidiaries for the Year.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company and the changes of directors during the Year are set out in the "Corporate Governance Report" section of this annual report. There has been no change in the members of the Supervisory Committee from 1 January 2007 to the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

Biographical details of the directors, supervisors and other senior management of the Company are set out in the "Biographical Details of Directors, Supervisors and Other Senior Management" section of this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

The Company did not enter into any service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), with its directors and supervisors.

Details of the remuneration of the directors and supervisors of the Company are set out in note 12 to the financial statements.

HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid individuals of the Company are set out in note 13 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the directors and supervisors had a material interest, whether directly or indirectly, in any contracts which were significant to the business of the Company and subsisted at the end of the Year or at any time during the Year.

MANAGEMENT CONTRACT

Pursuant to the asset management agreement entered into between the Company and PICC Asset Management Company Limited ("PICC AMC", an associate of the Company and a subsidiary of the Company's controlling shareholder), PICC AMC provides investment management services in respect of certain assets of the Company. The Company pays PICC AMC a management fee and a performance bonus fee when the investment performance satisfies certain conditions. The particulars of this agreement are set forth in note 45 to the financial statements.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

The directors, supervisors and chief executive of the Company had not held the interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the Securities and Futures Ordinance ("SFO") as at 31 December 2007 that are required to be recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

DIRECTORS' INTERESTS IN COMPETING BUSINESS

PICC Life Insurance Company Limited ("PICC Life", an associate of the Company) and PICC Health Insurance Company Limited ("PICC Health"), subsidiaries of PICC Group, the controlling shareholder of the Company, also engage in accidental injury insurance and short-term health insurance business.

Mr Wu Yan, the Chairman of the Company, is the Chairman of PICC Life. Mr Wu Gaolian, a non-executive director of the Company, is the Chairman of PICC Health and a director of PICC Life. Mr Zhou Shurui, a non-executive director of the Company, was a non-executive director of PICC Health (resigned on 6 August 2007). Ms Liu Zhenghuan, an executive director of the Company, is a director of PICC Life.

Pursuant to the reorganisation agreement entered into between the Company and PICC Group, PICC Group has undertaken not to carry on any insurance business in the PRC which is of the same or similar nature as, or competes with, the core business of the Company.

Save as disclosed above, none of the directors of the Company is or was interested in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business from 1 January 2007 to the date of this report.

MATERIAL CONTRACTS

The Company entered into various agreements with PICC Group (the controlling shareholder of the Company) and PICC AMC (an associate of the Company and a subsidiary of the Company's controlling shareholder). Details of the transactions pursuant to these agreements during the Year are set out in note 45 to the financial statements.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2007, the following shareholders had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity	Number of domestic shares	Nature of interests	Percentage of total number of domestic shares in issue	Percentage of total number of shares in issue
PICC Group	Beneficial owner	7,685,820,000	Long position	100%	69.0%

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total number of H shares in issue	Percentage of total number of shares in issue
AIG *(Note 1)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania *(Note 1)*	Beneficial owner	562,549,380	Long position	16.28%	5.05%
Commerce and Industry Insurance Company *(Note 1)*	Beneficial owner	330,911,400	Long position	9.58%	2.97%
Lexington Insurance Company *(Note 1)*	Beneficial owner	209,577,220	Long position	6.06%	1.88%
UBS AG	Beneficial owner/ Person having a security interest in shares/ Interest of controlled corporations	235,030,752 *(Note 2)*	Long position	6.80%	2.11%
		116,921,580 *(Note 3)*	Short position	3.38%	1.05%
JPMorgan Chase & Co.	Beneficial owner/ Investment manager/ Custodian-corporation/ Approved lending agent	197,566,518 *(Note 4)*	Long position	5.72%	1.77%
		32,565,500 *(Note 5)*	Short position	0.94%	0.29%

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO *(continued)*

Notes:

1. Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company, Lexington Insurance Company were controlled corporations of AIG.

2. Included in the 235,030,752 shares were 213,832,952 shares held in the capacity as beneficial owner and 21,197,800 shares held in the capacity as interest of controlled corporations.

3. Included in the 116,921,580 shares were 54,000,000 shares held in the capacity as beneficial owner, 41,723,780 shares held in the capacity as person having a security interest in shares and 21,197,800 shares held in the capacity as interest of controlled corporations.

4. Included in the 197,566,518 shares were 104,767,648 shares held in the capacity as beneficial owner, 4,507,630 shares held in the capacity as investment manager and 88,291,240 shares held in the capacity as custodian-corporation/approved lending agent.

5. All the 32,565,500 shares were held in the capacity as beneficial owner.

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2007 that are required to be recorded in the register kept under section 336 of the SFO.

PUBLIC FLOAT

As at the date of this report, 31% of the issued share capital of the Company is held by the public, and therefore the Company complies with the minimum public float requirement set out in the Listing Rules.

CONNECTED TRANSACTIONS

The connected transaction and the continuing connected transactions of the Company for the Year are set out in note 45 to the financial statements.

The independent non-executive directors of the Company have reviewed all the continuing connected transactions and confirmed that:

1. all transactions were entered into in the ordinary and usual course of business;

2. all transactions were on normal commercial terms, fair and reasonable and in the interests of the shareholders of the Company as a whole;

3. all transactions were carried out in accordance with the terms of the agreements governing the transactions; and

4. for items (i) to (iii) and (v) set out in note 45(a) to the financial statements, none of the transactions exceeded the relevant annual upper limits approved by the Stock Exchange or previously disclosed in the Company's announcements.

CONNECTED TRANSACTIONS *(continued)*

The auditors of the Company have reviewed all the continuing connected transactions and confirmed to the Board of Directors that:

1. all transactions have been approved by the Board of Directors;

2. all transactions (when involving the provision of goods or services by the Company) were carried out in accordance with the Company's pricing policy;

3. all transactions were carried out in accordance with the terms of the agreements governing the transactions; and

4. for items (i) to (iii) and (v) set out in note 45(a) to the financial statements, none of the transactions exceeded the relevant annual upper limits approved by the Stock Exchange or previously disclosed in the Company's announcements.

The Company has complied with the requirements of the waiver granted by the Stock Exchange or the disclosure requirements under Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the "Corporate Governance Report" section of this annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements for the Year. The composition and the role of the Audit Committee and a summary of its work performed during the Year are set out in the "Corporate Governance Report" section of this annual report.

AUDITORS

The terms of Ernst & Young and Ernst & Young Hua Ming, which serve as the international auditors and domestic auditors of the Company respectively, shall end at the conclusion of the forthcoming annual general meeting. A resolution to re-appoint Ernst & Young as the international auditors and Ernst & Young Hua Ming as the domestic auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board of Directors
Wu Yan
Chairman

Beijing, the PRC
15 April 2008

Dear Shareholders:

In 2007 (the "Year"), all members of the Supervisory Committee of the Company duly carried out its work and supervisory duties strictly in accordance with the relevant provisions of the Company Law and the Articles of Association of PICC Property and Casualty Company Limited ("Articles of Association") in good faith, and effectively protected the interests of the shareholders, the Company and its employees.

During the Year, the Supervisory Committee convened two meetings, at which ten proposals including the Auditors' Report and the Audited Financial Statements for 2006 were considered and approved. The Supervisory Committee also gave opinions on the financial statements disclosed by the Company and the significant issues arising from the Company's operations and management. The supervisors attended four meetings of the Audit Committee, at which the Company's relevant departments reported on matters including the financial conditions, business operations, internal control and compliance of the Company for 2006 and the first half of 2007, and the Company's auditors reported on the audit and review work for the Company. The supervisors also attended three shareholders' general meetings and four meetings of the Board of Directors to perform on-site supervision of the legality of the substance and procedures of the meetings. The supervisors monitored the implementation by the Board of Directors of the resolutions of the shareholders' general meetings, and submitted the Report of the Supervisory Committee for 2006 to the shareholders' general meeting, at which it was approved.

During the Year, the Supervisory Committee focused on the supervision of financial matters, internal control and compliance, and conducted investigation and research on matters such as rural insurance business, cost control, cross-sales of property insurance and life insurance products and premiums receivable of the Company's eleven branches and their sub-branches in Beijing, Tianjin, Hebei, Shanxi, Shandong, Chongqing, Jiangsu, Anhui, Hunan, Fujian and Yunnan. Special reports on the results of the investigation and research with improvement suggestions were submitted to the management of the Company.

The Supervisory Committee is of the view that:

In the Year, the directors and senior management of the Company have performed their duties set forth in the Articles of Association in diligence and good faith, implemented all resolutions of the shareholders' general meetings and those of the Board of Directors in earnest, and made active and persistent efforts for the Company's development. No director or member of the senior management was found to have committed any breach of any laws, regulations or the Articles of Association or to have infringed any rights or interests of the shareholders, the Company or its employees when performing their duties during the Year.

The reviewed financial statements for the interim period of 2007 and the audited financial statements for 2007 of the Company and its subsidiaries were prepared strictly in accordance with the relevant accounting standards, the accounting treatments were applied consistently, and the information contained in the financial statements gave a true and fair view of the financial conditions and operating results of the Company and its subsidiaries.

The connected transactions of the Company were conducted on an arm's length basis and satisfied the relevant regulatory provisions of the Stock Exchange. There was no indication of any infringement of the interests of the independent minority shareholders and the Company.

In 2008, the Supervisory Committee will perform its supervisory duties strictly in accordance with the relevant provisions of the Company Law and the Articles of Association with supervision of meetings as base, financial matters, internal control and compliance as supervision focuses, and investigation and research as tools. The Supervisory Committee will also further strengthen its supervisory and investigation and research efforts to protect the interests of the shareholders, the Company and its employees earnestly and to accomplish its work diligently.

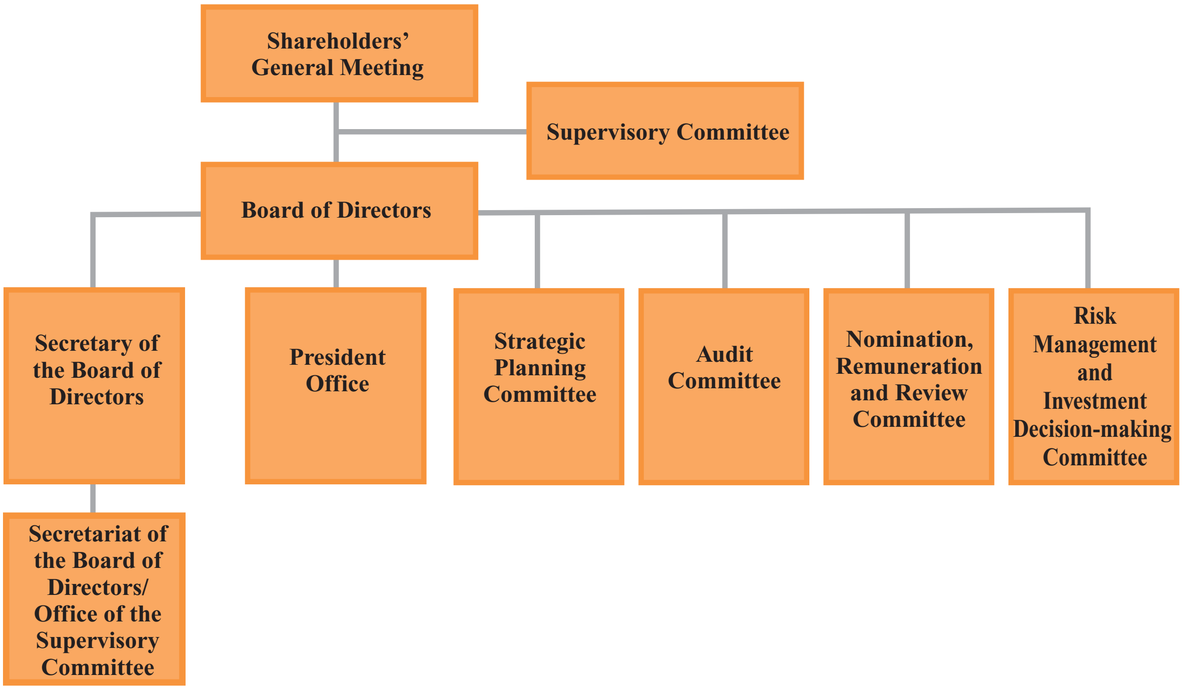
By Order of the Supervisory Committee
Ding Yunzhou
Chairman of the Supervisory Committee

Beijing, the PRC
15 April 2008

OVERVIEW

The Company believes that maintaining a sound corporate governance is in the interests of the Company, its shareholders and stakeholders. In accordance with the Company Law, the Listing Rules, the Guidelines on Regulating Corporate Governance Structure of Insurance Companies (Trial) ("Guidelines"), the Articles of Association and other relevant laws and regulations, the Company has been continuously enhancing its corporate governance.

In 2007 (the "Year"), the Company continuously strengthened its internal control according to the requirements of the Guidelines on Internal Audit of Insurance Companies (Trial), the Guidelines on Risk Management of Insurance Companies (Trial), the Guidelines on Compliance Management of Insurance Companies issued by China Insurance Regulatory Commission and the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules ("Code on Corporate Governance Practices"), and clearly defined the duties and responsibilities of the Risk Management and Investment Decision-making Committee in the risk management and assessment aspect. The Company has also set up six regional monitoring and auditing centres and carried out an annual review of the internal control system to further refine the organisational structure for internal control and enhance the efficiency of the internal control system.



Save as during the period from 1 February 2007 to 22 March 2007 when one of the requirements under code provision A.2.1 of the Code on Corporate Governance Practices had not been complied with, the Company complied with all the other code provisions of the Code on Corporate Governance Practices in the Year. According to code provision A.2.1, the roles of chairman and chief executive officer should not be performed by the same person. On 1 February 2007, Mr Tang Yunxiang, the former Chairman, resigned as the Company's Chairman. The Board of Directors authorised Mr Wang Yi, the then Vice Chairman and President of the Company, to assume the role of the Chairman until the position of the Chairman had been replaced. On 23 March 2007, Mr Wu Yan was appointed as the Company's Chairman and Executive Director and as such, all requirements under code provision A.2.1 have been satisfied.

BOARD OF DIRECTORS

Overview

During the Year, the Board of Directors convened three shareholders' general meetings and submitted ten proposals to the shareholders' general meetings for consideration and approval. Nine board meetings were convened, at which forty-six proposals were considered and approved. The Board of Directors formulated the business development plan, financial budget, fixed assets investment plan, strategic allocation of and investment policies on custodian assets and so on. The Board of Directors also conducted an annual performance appraisal of the Company's Directors and senior management and enhanced the effectiveness of the Company's internal control system.

The Board of Directors meets regularly at least four times a year and holds special meetings when necessary. Notices of and meeting materials for regular board meetings are given to directors at least fourteen days and three days prior to the meetings, respectively. All directors are entitled to submit proposals on the agenda of board meetings. Detailed minutes of each board meeting are kept. Four board committees are established under the Board of Directors, namely the Strategic Planning Committee, the Audit Committee, the Nomination, Remuneration and Review Committee, and the Risk Management and Investment Decision-making Committee. The duties and responsibilities of and operating procedures for each of the board committees are clearly defined. The board committees present their views and make recommendations to the Board of Directors on matters within their respective scope of duties and responsibilities.

During the Year, in accordance with the principles and code provisions set out in A.1, A.3, A.4 and A.6 of the Code on Corporate Governance Practices and the relevant provisions of the Company Law, the Guidelines and the Articles of Association, the Board of Directors continued to regulate its operations and enhance the corporate governance. The Board of Directors has complied with all the code provisions under A.1, A.3, A.4 and A.6.

BOARD OF DIRECTORS *(continued)*

Composition

During the Year, the Board of Directors of the Company comprised the following Directors:

Name	Position	Date of commencement of directorship	Term
Mr Tang Yunxiang (resigned)	Chairman	6 July 2003	Resigned on 1 February 2007
Mr Wu Yan	Chairman, Executive Director	23 March 2007	From 23 March 2007 to 22 March 2010
Mr Wang Yi	Vice Chairman, Executive Director	6 July 2003	From 18 October 2006 to 5 July 2009
Mr Tse Sze-Wing, Edmund	Non-executive Director	15 June 2004	From 6 July 2006 to 5 July 2009
Mr Cheng Wai Chee, Christopher	Independent Non-executive Director	30 July 2003	From 30 July 2006 to 5 July 2009
Mr Lu Zhengfei	Independent Non-executive Director	24 February 2004	From 24 February 2007 to 23 February 2010
Mr Luk Kin Yu, Peter	Independent Non-executive Director	29 April 2005	From 29 April 2005 to 28 April 2008
Mr Ding Ningning	Independent Non-executive Director	18 January 2006	From 18 January 2006 to 17 January 2009
Mr Wu Gaolian	Non-executive Director	18 October 2006	From 18 October 2006 to 5 July 2009
Mr Zhou Shurui	Non-executive Director	6 July 2003	From 18 October 2006 to 5 July 2009
Mr Wang Yincheng	Executive Director	6 July 2003	From 18 October 2006 to 5 July 2009
Madam Liu Zhenghuan	Executive Director, Secretary of the Board of Directors	6 July 2003	From 18 October 2006 to 5 July 2009
Mr Li Tao	Non-executive Director	18 October 2006	From 18 October 2006 to 5 July 2009

BOARD OF DIRECTORS *(continued)*

Composition *(continued)*

Notes:

1. Mr Lu Zhengfei was re-appointed the Company's Independent Non-executive Director on 9 February 2007 and his term of appointment will expire on 23 February 2010.

2. Mr Luk Kin Yu, Peter was re-appointed the Company's Independent Non-executive Director on 15 April 2008 and his term of appointment will expire on 28 April 2011.

3. Mr Wang Yi resigned as the Company's Vice Chairman, Executive Director, President and Chief Executive Officer with effect from 22 April 2008.

Changes of directors during the Year are as follows:

Mr Tang Yunxiang resigned as the Company's Chairman and Non-executive Director on 1 February 2007. Mr Wu Yan was appointed the Company's Chairman and Executive Director on 23 March 2007.

Duties and Responsibilities

The Board of Directors is responsible for providing leadership and monitoring and controlling the operations of the Company, formulating the overall strategies, policies, financial budgets and final accounts, determining the annual business development plans and investment plans, determining the fundamental management system and internal management structure, assessing the performance of the Company and supervising the work of the management. The Board of Directors is also responsible for convening shareholders' general meetings, implementing resolutions of the shareholders' general meetings; formulating plans for distribution of profits and recovery of losses; formulating proposals for the increase in or reduction of the registered capital and the issue of corporate bonds; appointing or removing the Company's President, Vice President(s), Secretary of the Board of Directors and other senior management personnel and determining their remuneration, rewards and disciplinary matters. The Board of Directors is ultimately responsible for the internal control, risk and compliance management of the Company. Details of the duties and responsibilities of the Board of Directors were contained on page 33 of the Company's 2006 annual report.

The Board of Directors delegates the daily business operations and management of the Company to the management.

BOARD OF DIRECTORS *(continued)*

Summary of Work Undertaken

During the Year, the Board of Directors convened nine meetings and considered forty-six proposals. Each Director attained attendance rate of 100%. The attendance of each Director is recorded as follows:

Name	Number of meetings attended/ Number of meetings that require attendance	Attendance rate
Tang Yunxiang	0/0	–
Wu Yan	9/9	100%
Wang Yi	9/9	100%
Tse Sze-Wing, Edmund	9/9	100%
Cheng Wai Chee, Christopher	9/9	100%
Lu Zhengfei	9/9	100%
Luk Kin Yu, Peter	9/9	100%
Ding Ningning	9/9	100%
Wu Gaolian	9/9	100%
Zhou Shurui	9/9	100%
Wang Yincheng	9/9	100%
Liu Zhenghuan	9/9	100%
Li Tao	9/9	100%

Notes:

1. Mr Tang Yunxiang resigned on 1 February 2007.

2. Mr Wang Yi resigned on 22 April 2008.

During the Year, the main tasks accomplished by the Board of Directors included:

- convened three shareholders' general meetings and submitted ten proposals to the shareholders' general meetings including the proposals regarding the appointment of Mr Wu Yan as an Executive Director, the Directors' Report for 2006, the Auditors' Report and the audited financial statements for 2006, and the profit distribution plan for 2006;
- elected Mr Wu Yan as the Company's Chairman, Chairman of the Strategic Planning Committee and Chairman of the Risk Management and Investment Decision-making Committee;
- approved the business development plan, financial budget, fixed assets investment plan, strategic allocation of and investment policies on custodian assets of the Company for the Year;
- approved the total amount of remuneration payable by the Company for the Year, conducted the annual performance appraisal of the Company's senior management including the Chairman, Directors and President;
- reviewed and approved the Company's internal control evaluation report, risk evaluation report and compliance evaluation report for 2006, considered the report on improvement based on the Management Letter for 2006, reviewed and continuously enhanced the effectiveness of the Company's internal control system;
- approved the investment in PICC Life, the appointment of the onshore custodian for overseas stock investment and the becoming of the global insurance partner of the World Expo 2010 Shanghai.

DIRECTORS

Responsibilities with respect to Financial Statements

Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall give a true and fair view of the business operations of the Company in accordance with the financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants and through the adoption of appropriate accounting policies.

Securities Transactions

The Company has formulated guidelines on transactions of the Company's securities that are applicable to directors, supervisors and all employees, and the terms of such guidelines are no less exacting than those set out in the Model Code. The Company has enquired all the Directors and Supervisors and they have all confirmed that they have complied with the requirements under the Model Code and such guidelines during the Year.

Independence of Independent Non-executive Directors

The Company has received the annual confirmation letters from all the Independent Non-executive Directors of the Company in relation to their independence. Until the date of this report, the Company is of the view that all the Independent Non-executive Directors have been independent.

CHAIRMAN/PRESIDENT

During the Year, Mr Tang Yunxiang resigned as the Company's Chairman on 1 February 2007. Mr Wu Yan was elected the Company's Chairman on 23 March 2007. The President was Mr Wang Yi. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively and discharges its responsibilities properly. The President is responsible for managing the daily business operations of the Company and implementing the resolutions passed by the Board of Directors. Details of the duties and responsibilities of the Chairman and the President were contained on pages 36 and 37 of the Company's 2005 annual report.

AUDIT COMMITTEE

Overview

During the Year, the Audit Committee continuously consolidated its development. During the Year, the Audit Committee continued to enhance communications with external auditors with respect to the audit work, further monitored the auditing process and made many suggestions. The Audit Committee reviewed the Company's annual report and accounts for 2006, the interim report and accounts for 2007 and the financial statements of the compulsory third party motor insurance for the period from 1 July 2006 to 30 June 2007. The Audit Committee carried out the internal control work in an active manner, and made suggestions for the internal control, risk management and compliance of the Company. The Audit Committee also reviewed the Management Letter for 2006 and made recommendations on the report on improvement based on the Management Letter for 2005. Furthermore, the Audit Committee strengthened the supervision and provision of guidance regarding the internal audit and finance work, and reviewed three material connected transactions of the Company.

Composition

Chairman: Lu Zhengfei

Members: Luk Kin Yu, Peter and Li Tao

Duties and Responsibilities

The Audit Committee is responsible for monitoring and inspecting the financial reporting procedures and internal control system of the Company, reviewing the financial information of the Company, monitoring and providing guidance on the internal and external audit of the Company, and reviewing the appointment and the engagement terms of external auditors. Details of the duties and responsibilities of the Audit Committee were contained on pages 37 and 38 of the Company's 2005 annual report.

Remuneration of Auditors

In the Year, the Company paid RMB18.80 million to the auditors, including fees for the audit of the financial statements for 2006, review of the interim financial statements for 2007 and audit of the financial statements of the compulsory third party motor insurance for the period from 1 July 2006 to 30 June 2007. In the Year, the Company paid RMB1.92 million to the auditors for non-audit services, including the payment of RMB1.60 million for a due diligence service.

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken

During the Year, the Audit Committee held ten meetings (including six meetings which were held by way of written resolutions) and considered twenty-five proposals. The attendance rate of each committee member reached 100% and the attendance is recorded as follows:

Name	Lu Zhengfei	Luk Kin Yu, Peter	Li Tao
Number of meetings attended/ Number of meetings that require attendance	10/10	10/10	10/10
Attendance rate	100%	100%	100%

During the Year, the Audit Committee duly performed its duties of and played an active role in the monitoring of financial reporting procedures, the reviewing of financial reports, the strengthening of internal control and risk and compliance management, and the supervision and provision of guidance on internal and external audit. In the Year, the main tasks accomplished by the Audit Committee included:

Continuously strengthened communications with the external auditors:

- discussed with the external auditors about the nature, scope and responsibilities of the audit and review; considered the external auditors' reports on the work plans for and results of the audit for 2006, the interim review for 2007 and the audit of the financial statements of the compulsory third party motor insurance for the period from 1 July 2006 to 30 June 2007, gave detailed and specific opinions on the requirements and quality of the audit and review work; fully communicated with the external auditors on matters such as the impact of the changes in the accounting policies, material audit adjustments and internal control risks;

- fully considered the opinions of the external auditors and the Company's management on the fees for the annual audit, interim review and audit of the financial statements of the compulsory third party motor insurance; considered the engagement terms, and proposed to the Board of Directors on the continuous engagement of the auditors and obtained the approvals from the Board of Directors and the shareholders' general meeting;

- considered and approved the proposal regarding the independence and remuneration of the external auditors providing the due diligence service.

Monitored and inspected the financial reporting procedures and reviewed the financial reports:

- monitored and inspected the Company's financial reporting procedures; reviewed the financial statements and annual report for 2006, the interim financial statements and interim report for 2007 and the financial statements of the compulsory third party motor insurance for the period from 1 July 2006 to 30 June 2007; fully communicated with the management on material matters such as the selection of and changes in the accounting policies, material audit adjustments and internal control risks;

- considered and approved three material connected transactions including the investment in PICC Life, the renewal of the property leasing agreement and the signing of the asset management agreement.

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

Carried out internal control work in an active manner:

- considered and discussed the reports on the Company's internal control evaluation, risk evaluation and compliance evaluation for 2006, provided specific suggestions on each report and submitted to the Board of Directors for consideration;
- considered the Company's report on improvement based on the Management Letter for 2005, provided detailed suggestions to the external auditors and the management in respect of the questions raised therein; considered the Management Letter for 2006, proposed specific requirements of improvement and reporting work, thereby effectively enhancing the Company's internal control.

Strengthened supervision and provision of guidance on the internal audit and finance work:

- considered the report of the Audit Department of the Company on the work summary for 2006 and the work plan for the Year, considered and discussed the special audit report on motor vehicle insurance and the composite audit report on quality of claims handling;
- considered the report of the Finance and Accounting Department of the Company on the work summary for 2006 and the work plan for the Year.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE

Overview

The Nomination, Remuneration and Review Committee is responsible for matters relating to the nomination, remuneration and performance appraisal of directors of the Company. During the Year, the Company continued to reinforce the development of the Nomination, Remuneration and Review Committee. During the Year, the Nomination, Remuneration and Review Committee made constructive suggestions to the Board of Directors for various matters including nomination of candidate, remuneration and incentive policies and the performance appraisal of the Directors and senior management, and the overall remuneration of the Company.

Composition

Chairman: Cheng Wai Chee, Christopher

Members: Lu Zhengfei, Luk Kin Yu, Peter, Ding Ningning, Zhou Shurui, Wang Yincheng and Liu Zhenghuan

Duties and Responsibilities

The Nomination, Remuneration and Review Committee is responsible for recommending candidates for directorship, formulating remuneration policies and appraisal standards for directors, the President and other senior management personnel (including Vice Presidents, Chief Financial Officer, Secretary of the Board and Assistant to the President), and supervising the implementation of such policies and standards. Details of the duties and responsibilities of the Committee can be found on page 41 of the Company's 2005 annual report.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Nomination of Directors

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates as new directors, and then recommend such candidates to the Board of Directors. The Board of Directors shall then determine whether such candidates' appointments should be proposed for approval at the shareholders' general meeting. The major criteria considered by the Nomination, Remuneration and Review Committee and the Board of Directors are the educational background, management and research experience in the finance industry, especially in the insurance sector, of the candidates and the candidates' commitment to the Company. Regarding the nomination of independent non-executive directors, the Nomination, Remuneration and Review Committee will also give special consideration to the independence of the relevant candidates.

Remuneration of Directors and Other Senior Management

The fixed salary of the executive directors and other senior management is determined in accordance with the market levels and their respective positions, and the amount of their performance-related bonuses is determined according to the results of performance appraisal. The amounts of directors' fees and supervisors' fees and the units granted to the directors and supervisors under the Share Appreciation Rights Scheme are determined with reference to the market levels and the circumstances of the Company.

Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held three meetings, at which six resolutions were considered. All the three meetings discussed the remuneration-related matters. The meeting attendance rate of each committee member reached 100%. Attendance record of the meetings is as follows:

Name	Cheng Wai Chee, Christopher	Lu Zhengfei	Luk Kin Yu, Peter	Ding Ningning	Zhou Shurui	Wang Yincheng	Liu Zhenghuan
Number of meetings attended/ Number of meetings that require attendance	3/3	3/3	3/3	3/3	3/3	3/3	3/3
Attendance rate	100%	100%	100%	100%	100%	100%	100%

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

In the Year, the main tasks accomplished by the Nomination, Remuneration and Review Committee included:

- following the procedures set out in the paragraph headed "Nomination of Directors" above and taking into account many years' experience in the finance and insurance sectors and in management of Mr Wu Yan, proposed the appointment of Mr Wu Yan as the Company's Executive Director and such proposal was considered and approved by the Board of Directors and the shareholders' general meeting;
- taking into account comparable companies' salary levels in the market and the Company's own circumstances, made recommendations to the Board of Directors in respect of the fees of the directors and supervisors, and these recommendations were considered and approved by the Board of Directors and the shareholders' general meeting;
- taking into account the changes in the market environment, the Committee agreed to the overall remuneration plan of the Company for the Year, and submitted the plan to the Board of Directors for consideration and approval;
- proposed the Implementation Plan for the Third Grant under the Share Appreciation Rights Scheme of the Company and such proposal was submitted to the Board of Directors for consideration and approval;
- reviewed the performance appraisal of the senior management for 2006 and made recommendations to the Board of Directors in respect thereof; carried out the annual performance appraisal of the Chairman, Directors and President; made suggestions with respect to the score on appraisal of the President and the bonus coefficients for the Chairman and the President, which were considered and approved by the Board of Directors.

STRATEGIC PLANNING COMMITTEE

Overview

During the Year, the Company continued to increase its efforts in enhancing the work of the Strategic Planning Committee, and strengthened the review of the annual business development plan, major investment, financial budget, profit distribution and major strategies of the Company.

Composition

Chairman: Tang Yunxiang (resigned on 1 February 2007), Wu Yan (elected on 23 March 2007)

Members: Wang Yi, Tse Sze-Wing, Edmund, Ding Ningning, Wu Gaolian and Li Tao

Note: Mr Wang Yi, the Vice Chairman of the Company, performed duties of the Chairman of the Strategic Planning Committee for the period between 1 February 2007 and 22 March 2007. Mr Wang Yi resigned as a member of the Strategic Planning Committee with effect from 22 April 2008.

STRATEGIC PLANNING COMMITTEE *(continued)*

Duties and Responsibilities

The Strategic Planning Committee is responsible for formulating strategies for medium and long-term development, reviewing major investments and financing plans of the Company, reviewing annual financial budgets and final accounts of the Company. Details of the duties and responsibilities of the Committee can be found on pages 43 and 44 of the Company's 2005 annual report.

Summary of Work Undertaken

During the Year, the Strategic Planning Committee held four meetings and considered eleven proposals.

In the Year, the main tasks accomplished by the Strategic Planning Committee included:

- considered and approved the business development plan for the Year;
- considered and approved the annual financial budget for the Year;
- considered and approved the adjustment to the Company's organisational structure;
- considered and approved the profit distribution plan for 2006 and the payment of an interim dividend for 2007;
- considered and approved the proposal with respect to investment in PICC Life;
- considered and approved the partnership agreement for becoming the global insurance partner of the World Expo 2010 Shanghai.

RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE

Overview

During the Year, the Company continued to increase its efforts in enhancing the work of the Risk Management and Investment Decision-making Committee, revised its work manual to specify its duties and responsibilities in the risk management aspect, and strengthened the review of the fund application strategies and investment portfolio.

Composition

Chairman: Tang Yunxiang (resigned on 1 February 2007), Wu Yan (elected on 23 March 2007)

Members: Wang Yi, Luk Kin Yu, Peter, Wu Gaolian, Zhou Shurui, Wang Yincheng and Liu Zhenghuan

Note: Mr Wang Yi, the Vice Chairman of the Company, performed duties of the Chairman of the Risk Management and Investment Decision-making Committee during the period between 1 February 2007 and 22 March 2007. Mr Wang Yi resigned as a member of the Risk Management and Investment Decision-making Committee with effect from 22 April 2008.

RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE *(continued)*

Duties and Responsibilities

- examining the overall goal, basic policies and working system of risk management of the Company;
- examining the organisational structure for risk management and the related duties and responsibilities;
- examining the risk assessment of major decisions and solutions to material risks;
- examining the annual risk assessment reports;
- examining the management of the use of insurance funds and the plans for entrusting and custody of insurance funds;
- examining the internal rules and procedures system, decision-making process and delegation policies in relation to the use of insurance funds;
- examining the delegation by the Board of Directors to the management in relation to the use of insurance funds;
- formulating annual strategic plans for allocation of assets and investment strategies;
- formulating investment strategies and plans for new investment products;
- regularly reviewing any findings of the Company's inspection of risk control on the use of funds and understanding the risks faced by the Company in relation to the use of funds;
- reviewing the annual Reports on Assets and Liabilities Matching of the Company;
- examining matters in relation to changes in accounting policies regarding the use of insurance funds.

Summary of Work Undertaken

In the Year, the Risk Management and Investment Decision-making Committee held five meetings and considered six proposals.

In the Year, the main tasks accomplished by the Risk Management and Investment Decision-making Committee included:

- considered and approved the strategic allocation of and investment strategies for the custodian assets for the Year;
- considered and approved the proposal regarding the appointment of the onshore custodian for overseas stock investment;
- considered and approved the amendment to the Work Manual for the Risk Management and Investment Decision-making Committee.

INTERNAL CONTROL

The Company considers that sound internal control plays an important role in the operations of the Company. The Board of Directors has the ultimate responsibility for the internal control, risk management and compliance management, and reviews the effectiveness of the internal control each year. The Company has established and constantly revised and refined its relatively comprehensive system of internal rules and procedures in accordance with the relevant requirements of the PRC and based on the actual conditions of the Company.

During the Year, according to the Code on Corporate Governance Practices, the Guidelines and the requirements of the Guidelines on Internal Audit of Insurance Companies (Trial), the Guidelines on Risk Management of Insurance Companies (Trial) and the Guidelines on Compliance Management of Insurance Companies issued by China Insurance Regulatory Commission, the Company further strengthened its internal control. Pursuant to the Guidelines on Risk Management of Insurance Companies (Trial), the Board of Directors clearly specified the duties and responsibilities of the Risk Management and Investment Decision-making Committee in respect of risk management and assessment. The Company has also set up six regional monitoring and auditing centres to monitor, inspect and audit the branches for which they are responsible so as to strengthen the supervision on the operational management of the branches and further refine the organisational structure for risk management and compliance management.

The Board of Directors and the Audit Committee considered and discussed the Company's internal control, risk and compliance evaluation reports for 2007 and made specific requirements and recommendations with respect to the internal control work with a view to reviewing and enhancing the effectiveness of internal control.

The Board of Directors and the Audit Committee also considered the Company's report on improvement based on the Management Letter for 2006, discussed the recommendations presented by the auditors and the feedback from the management, reviewed the improvement progress in the areas of underwriting, claims handling, finance, actuary and information technology, and made specific requirements and recommendations with respect thereto.

SUPERVISORY COMMITTEE

Overview

During the Year, the Supervisory Committee of the Company discharged its supervisory duties according to the laws. The Supervisory Committee strengthened the supervision on meetings, conducted investigations and researches on specific items, and made suggestions to the management regarding the strengthening of operational management, compliant operation and financial management.

Composition

Chairman: Ding Yunzhou

Supervisors: Li Dianjun, Sheng Hetai and He Bangshun

SUPERVISORY COMMITTEE *(continued)*

Duties and Responsibilities

The Supervisory Committee is accountable to the shareholders' general meeting and performs duties of supervision on the financial affairs, directors and the senior management of the Company. The Supervisory Committee is responsible for examining the financial affairs of the Company, verifying the financial information to be submitted by the Board of Directors at general meetings including the financial reports, business reports and profit distribution plans, supervising directors and the senior management in their performance of duties for the Company, proposing the removal of directors or other senior management who breach laws, regulations, the Articles of Association or resolutions of the shareholders' general meetings, requiring the directors and other senior management to rectify their actions in the event that such actions infringe the interests of the Company, and bringing lawsuits against directors or other senior management in accordance with the provisions of the Company Law.

Summary of Work Undertaken

During the Year, the Supervisory Committee duly carried out its work and supervisory duties and protected the interests of the shareholders, the Company and its employees strictly in accordance with the relevant provisions of the Company Law and the Articles of Association. During the Year, the Supervisory Committee convened two meetings and considered and approved ten proposals. The meeting attendance rate of each Supervisor reached 100% and the record of their attendance is as follows:

Name	Ding Yunzhou	Li Dianjun	Sheng Hetai	He Bangshun
Number of meetings attended/ Number of meetings that require attendance	2/2	2/2	2/2	2/2
Attendance rate	100%	100%	100%	100%

Details of the tasks accomplished by the Supervisory Committee in the Year are set out in the Report of the Supervisory Committee contained in this annual report.

RIGHTS OF SHAREHOLDERS

Methods of Convening Special General Meetings

According to the Articles of Association and the Rules of Conduct for General Meetings of the Company, any shareholder(s), whether individually or collectively, holding 10% or more of the voting shares of the Company may request in writing to convene a special general meeting and such shareholder(s) shall submit the complete resolution(s) to the Board of Directors in writing. If the Board of Directors is satisfied that the resolution(s) complies with the requirements under the laws, regulations and the Articles of Association, it shall issue a notice of special general meeting within 15 days of receipt of the written resolution(s).

Procedures for Proposing Resolutions at Annual General Meetings

Any shareholder(s), whether individually or collectively, holding 3% or more of the voting shares of the Company is entitled to propose and submit to the Board of Directors resolution(s) in writing 10 days prior to the convening of the annual general meeting. The Board of Directors shall notify other shareholders of such resolution(s) within two days of receipt of the resolution(s) and submit the same to the annual general meeting for consideration. The resolution(s) shall deal with matters that are within the scope of the shareholders' general meeting and shall contain clear subjects and specific matters to be resolved.

INVESTOR RELATIONS

The Company timely communicates its operating results and business development trends with investors after the announcements of annual and interim results by way of results briefings and roadshows. Through attending visits from investors and major investment forums, making timely replies to enquiries made by telephone and electronic mail and providing relevant information to investors proactively through the Company's website, the Company is strengthening its day-to-day communications with investors with a view to establishing and maintaining a good relationship with investors.

PARTICULARS OF THE LATEST SHAREHOLDERS' GENERAL MEETING

The latest shareholders' general meeting was the special general meeting held on 15 April 2008. The meeting considered the resolution regarding the re-election of Mr Luk Kin Yu, Peter as an Independent Non-executive Director of the Company. The resolution was decided by a show of hands and was approved by all the shareholders present (including their proxies) with shares conferring a right to vote.

To the shareholders of PICC Property and Casualty Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of PICC Property and Casualty Company Limited set out on pages 50 to 129, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
15 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB million	2006 RMB million
TURNOVER	5	88,668	71,348
Net premiums earned	5	68,728	55,616
Net claims incurred	6	(46,944)	(38,616)
Amortisation of deferred acquisition costs, net	23	(11,151)	(8,882)
Insurance protection expenses		(749)	(610)
General and administrative expenses		(11,311)	(6,904)
UNDERWRITING PROFIT/(LOSS)		(1,427)	604
Net investment income	7	3,229	1,689
Net realised and unrealised gains on investments	8	4,442	2,372
Investment expenses		(288)	(64)
Interest expenses credited to policyholders' deposits		(248)	(138)
Exchange losses, net	9	(801)	(426)
Sundry income		12	85
Sundry expenses		(135)	(115)
Finance costs	10	(315)	(209)
Share of profit/(loss) of associates		(13)	2
PROFIT BEFORE TAX	11	4,456	3,800
Tax	14	(1,465)	(1,718)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		2,991	2,082
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB)	15	0.268	0.187
DIVIDEND PER SHARE (in RMB)	16	0.091	–

	Notes	2007 RMB million	2006 RMB million
ASSETS			
Cash and cash equivalents	17	30,789	28,374
Derivative financial assets	18	–	6
Debt securities	19	28,465	22,889
Equity securities	20	16,978	7,962
Insurance receivables, net	21	13,898	7,519
Reinsurance assets	22	11,136	9,745
Deferred acquisition costs	23	7,490	6,817
Other financial assets and prepayments	24	8,365	7,194
Interests in associates	25	1,025	162
Property, plant and equipment	27	11,721	11,903
Investment properties	28	532	443
Prepaid land premiums	29	3,866	3,960
TOTAL ASSETS		134,265	106,974
LIABILITIES			
Derivative financial liabilities	18	35	–
Payables to reinsurers	30	9,813	4,241
Accrued insurance protection fund	31	296	217
Tax payable		1,314	325
Other liabilities and accruals	32	8,109	6,628
Deferred tax liabilities	33	2,777	1,905
Deferred acquisition costs-reinsurers' share	23	1,775	1,315
Insurance contract liabilities	34	73,115	59,722
Policyholders' deposits	35	7,953	8,894
Subordinated debts	36	3,000	3,000
TOTAL LIABILITIES		108,187	86,247
EQUITY			
Equity attributable to equity holders of the parent			
Issued share capital	38	11,142	11,142
Reserves		14,936	9,585
TOTAL EQUITY		26,078	20,727
TOTAL EQUITY AND LIABILITIES		134,265	106,974

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Issued share capital *RMB million*	Share premium account *RMB million*	Available-for-sale investment revaluation reserve *RMB million*	Cash flow hedging reserve *RMB million*	Statutory surplus reserve *RMB million (Note 1)*	Statutory public welfare fund *RMB million (Note 2)*	General risk reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2006	11,142	4,739	(80)	–	66	34	–	1,897	17,798
Net fair value gain on available-for-sale investments	–	–	1,295	–	–	–	–	–	1,295
Net fair value gain on cash flow hedges	–	–	–	6	–	–	–	–	6
Realised gains on disposals of available -for-sale investments	–	–	(38)	–	–	–	–	–	(38)
Change in deferred tax liabilities recognised *(note 33)*	–	–	(414)	(2)	–	–	–	–	(416)
Net gain for the year recognised directly in equity	–	–	843	4	–	–	–	–	847
Profit for the year	–	–	–	–	–	–	–	2,082	2,082
Transfer from/(to) reserves	–	–	–	–	147	(34)	–	(113)	–
At 31 December 2006	11,142	4,739*	763*	4*	213*	–*	–*	3,866*	20,727
At 1 January 2007	11,142	4,739	763	4	213	–	–	3,866	20,727
Net fair value gain on available-for-sale investments	–	–	5,443	–	–	–	–	–	5,443
Net fair value gain on cash flow hedges	–	–	–	(41)	–	–	–	–	(41)
Realised gains on disposals of available -for-sale investments	–	–	(1,118)	–	–	–	–	–	(1,118)
Change in deferred tax assets/(liabilities) recognised *(note 33)*	–	–	(1,428)	14	–	–	–	–	(1,414)
Effect of changes in tax rate *(note 33)*	–	–	438	(3)	–	–	–	–	435
Change in associates' equity	–	–	69	–	–	–	–	–	69
Net gain/(loss) for the year recognised directly in equity	–	–	3,404	(30)	–	–	–	–	3,374
Profit for the year	–	–	–	–	–	–	–	2,991	2,991
Transfer from/(to) reserves	–	–	–	–	239	–	239	(478)	–
Interim 2007 dividend	–	–	–	–	–	–	–	(1,014)	(1,014)
At 31 December 2007	11,142	4,739*	4,167*	(26)*	452*	–*	239*	5,365*	26,078

* These reserve accounts comprise the consolidated reserves of RMB14,936 million (2006: RMB9,585 million) in the consolidated balance sheet.

Note1: Due to the adoption of new PRC Accounting Standards, statutory surplus reserves were restated according to the revised PRC GAAP net profits for the years ended 31 December 2007, 2006 and 2005.

Note2: Upon adoption of the amendments to the PRC Company Law, the balance of statutory public welfare fund was transferred to the statutory surplus reserve on 1 January 2006.

	Notes	2007 RMB million	2006 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,456	3,800
Adjustments for:			
Net investment income	7	(3,229)	(1,689)
Net realised and unrealised gains on investments	8	(4,442)	(2,372)
Interest expenses credited to policyholders' deposits		248	138
Exchange losses, net	9	801	426
Share of (profit)/loss of associates		13	(2)
Depreciation of property, plant and equipment	11, 27	876	933
Depreciation of investment properties	11, 28	20	15
Amortisation of prepaid land premiums	11, 29	113	102
Net loss on disposal of items of property, plant and equipment	11	2	3
Finance costs	10	315	209
Impairment loss on insurance receivables	11	627	98
Increase in insurance receivables, net		(7,006)	(500)
Increase in deferred acquisition costs, net		(213)	(1,425)
Increase in other financial assets and prepayments		(392)	(483)
Increase/(decrease) in payables to reinsurers		5,572	(140)
Increase in accrued insurance protection fund		79	22
Increase in other liabilities and accruals		2,000	452
Increase in insurance contract liabilities, net		12,002	6,596
Cash generated from operations		11,842	6,183
PRC income tax paid		(583)	(859)
Net cash inflow from operating activities		11,259	5,324
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,006	1,373
Rental income received from investment properties		54	36
Dividend income received from equity securities		1,150	98
Payment for investment expenses		(254)	(45)
Payment for capital expenditure		(890)	(954)
Proceeds from disposal of items of property, plant and equipment		28	128
Acquisition of an associate		(812)	(160)
Payment for purchases of debt and equity securities		(46,193)	(32,586)
Payment for infrastructure finance projects		(870)	–
Proceeds from sales of debt and equity securities		40,434	26,812
Placement of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits		(2,130)	(7,203)
Maturity of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits		2,644	11,589
Net cash outflow from investing activities		(4,833)	(912)

continued/..

	Notes	2007 RMB million	2006 RMB million
Net cash outflow from investing activities		**(4,833)**	(912)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subordinated debts issued by the Company		–	3,000
Repayment of a subordinated loan		–	(2,000)
Securities sold under agreements to repurchase		(200)	200
Increase/(decrease) in policyholders' deposits		(1,189)	307
Interest paid		(315)	(208)
Interim dividend paid		(1,014)	–
Net cash inflow/(outflow) from financing activities		**(2,718)**	1,299
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,708**	5,711
Cash and cash equivalents at beginning of year		21,606	15,895
CASH AND CASH EQUIVALENTS AT END OF YEAR		**25,314**	21,606
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand	17	27	25
Demand deposits	17	14,761	12,623
Securities purchased under resale agreements with original maturity of less than three months	17	2,896	307
Deposits with bank and other financial institutions with original maturity of less than three months	17	7,630	8,651
		25,314	21,606

	Notes	2007 RMB million	2006 RMB million
ASSETS			
Cash and cash equivalents	17	30,786	28,371
Derivative financial assets	18	–	6
Debt securities	19	28,465	22,889
Equity securities	20	16,978	7,962
Insurance receivables, net	21	13,898	7,519
Reinsurance assets	22	11,136	9,745
Deferred acquisition costs	23	7,490	6,817
Other financial assets and prepayments	24	8,365	7,194
Investments in associates	25	972	160
Investments in subsidiaries	26	3	3
Property, plant and equipment	27	11,721	11,903
Investment properties	28	532	443
Prepaid land premiums	29	3,866	3,960
TOTAL ASSETS		134,212	106,972
LIABILITIES			
Derivative financial liabilities	18	35	–
Payables to reinsurers	30	9,813	4,241
Accrued insurance protection fund	31	296	217
Tax payable		1,314	325
Other liabilities and accruals	32	8,109	6,628
Deferred tax liabilities	33	2,777	1,905
Deferred acquisition costs-reinsurers' share	23	1,775	1,315
Insurance contract liabilities	34	73,115	59,722
Policyholders' deposits	35	7,953	8,894
Subordinated debts	36	3,000	3,000
TOTAL LIABILITIES		108,187	86,247
EQUITY			
Issued share capital	38	11,142	11,142
Reserves		14,883	9,583
TOTAL EQUITY		26,025	20,725
TOTAL EQUITY AND LIABILITIES		134,212	106,972

1. CORPORATE INFORMATION

PICC Property and Casualty Company Limited (the "Company") is a limited liability joint stock company incorporated in the People's Republic of China (the "PRC").

The registered office of the Company is located at No.69, Dongheyan Street, Xuanwumen, Beijing, the PRC.

The principal activity of the Company and its subsidiaries (the "Group") is mainly the provision of property and casualty insurance services. The details of the business segments are set out in note 4 of the financial statements.

In the opinion of the directors, the parent and the ultimate holding company of the Company is The People's Insurance Company (Group) of China (formerly known as PICC Holding Company, the "PICC Group"), which is incorporated in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain debt securities, equity securities, derivatives and structured deposits, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. For the year ended 31 December 2007, the net loss attributable to minority interests amounted to RMB35,046 (2006: net profit of RMB228). As at 31 December 2007, the net assets attributable to minority interests amounted to RMB70,182 (2006: RMB105,228).

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended HKFRSs and interpretations during the year.

HKAS 1 Amendment	Presentation of Financial Statements – Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

HKAS 1 Amendment – Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 39 to the financial statements.

HKFRS 7 – Financial Instruments: Disclosures

The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where appropriate.

HK(IFRIC)-Int 8 – Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangements in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued share appreciation rights, the interpretation has had no effect on these financial statements.

HK(IFRIC)-Int 9 – Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)*

HK(IFRIC)-Int 10 – Interim Financial Reporting and Impairment

HK(IFRIC)-Int 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or performance of the Group.

2.3 FUTURE CHANGES IN ACCOUNTING POLICIES

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 2 Amendments	Share-Based Payments – Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14 HKAS19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This amendment to HKFRS 2 Share-Based Payments was issued in March 2008, and becomes effective for financial years beginning on or after 1 January 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

The revised HKFRS 3 Business Combination was issued in March 2008, and becomes effective for financial years beginning on or after 1 July 2009. The revised HKFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by the revised HKFRS 3 must be applied prospectively.

2.3 FUTURE CHANGES IN ACCOUNTING POLICIES *(continued)*

HKFRS 8 Operating Segment was issued in March 2007, and becomes effective for annual periods beginning on or after 1 January 2009. The standard specifies how an entity should report its information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires disclosure of the information about the products and services provided by the segments, the geographical areas in which the Group operates, and the revenues from its major customers. The standard will supersede HKAS 14 Segment Reporting.

A revised HKAS 23 Borrowing costs was issued in June 2007, and becomes effective for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

The revised HKAS 27 Consolidated and Separate Financial Statements was issued in March 2008, and becomes effective for financial years beginning on or after 1 July 2009. This revised standard requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, it changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised HKAS 27 must be applied prospectively.

HK(IFRIC)-Int 11 was issued in January 2007, and becomes effective for annual periods beginning on 1 March 2007. The interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 was issued in March 2007, and becomes effective for annual periods beginning on or after 1 January 2008. The interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. Currently, no member of the Group is an operator and hence the interpretation will have no impact on the Group.

HK(IFRIC)-Int 13 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted, and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes exist currently.

HK(IFRIC)-Int 14 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under HKAS 19 Employee Benefits. As the Group did not have any such arrangement, the interpretation has no impact on the financial position or performance of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and the consolidated statement of changes in equity, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as assets and are stated at cost less any impairment losses.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on the acquisition of associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Present Value of Acquired In-force Business (the "AVIF")

When a portfolio of long-term insurance contracts and/or investment contracts with discretionary participation features are acquired either directly or through the acquisition of an investment in an associate, the difference between the fair value and the carrying amount of the insurance liabilities is recognised as the value of acquired in-force business.

Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses. It is amortised over the useful life of the related contracts on a systematic rate. The amortisation is recorded in the income statement.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement. The AVIF is also taken into consideration when conducting liability adequacy tests for each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis so as to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2.77%-19.40%
Motor vehicles	16.17%-24.25%
Office equipment, furniture and fixtures	8.82%-32.30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs, less accumulated depreciation and any impairment losses at the balance sheet date.

Depreciation is computed on the straight-line basis, after taking into account the estimated residual value (3% of the original cost), over the estimated useful lives. The estimated useful lives of investment properties vary from 30 to 35 years.

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the individual investment properties.

Any gains or losses on retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers to, or from, investment properties are made when, and only when, there is evidence of a change in use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in property, plant and equipment, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the two preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognised in the income statement as "Net investment income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Net realised and unrealised gains/(losses) on investments" and are transferred from the available-for-sale investment revaluation reserve.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to premiums receivable and agents' balances and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant' or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share of price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

– the rights to receive cash flows from the asset have expired;

– the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

– the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities at amortised cost (including subordinated debts)

Financial liabilities including payables to reinsurers, accrued insurance protection fund, other liabilities and accruals, policyholders' deposits and subordinated debts are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial Guarantee Contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as insurance contracts and the Group applies the recognition and measurement criteria under HKFRS 4 Insurance Contracts to such contracts.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting and are classified as cash flow hedges are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging *(continued)*

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Impairment of non-financial assets other than goodwill and AVIF

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of an asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and AVIF is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Product classification

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of the insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains as an insurance contract for the remaining of its life time, even if the insurance risk reduces significantly during this period, unless all rights and obligations expire.

Investment contracts

Any contracts issued to policyholders but not considered as insurance contracts under HKFRS 4 are classified as investment contracts. Investment contracts can be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Where contracts contain both a deposit component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Any premiums relating to the insurance component are accounted for through the income statement and the remaining element is accounted for as a deposit through the balance sheet as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contract liabilities

Unearned premium reserves

Unearned premium reserves are recognised to cover the unexpired portion of the risks written. Premiums are earned over the terms of the related insurance contracts on a 365-day basis.

Loss and loss adjustment expense reserves

The loss and loss adjustment expense reserves are recorded on an undiscounted basis and comprise estimated provisions for losses reported at the balance sheet date, losses incurred but not yet reported at the balance sheet date, and direct and indirect unallocated loss adjustment expenses.

The loss and loss adjustment expense reserves are calculated at a realistically estimated amount considered necessary to settle the loss in full, less a deduction for the estimated value of salvage and other recoveries, using the recognised actuarial method. Past experience is taken into account as well as the current and future expected social and economic factors.

Liability adequacy tests

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition cost assets. In performing these tests, current best estimates of future contractual cash flows, loss adjustments and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement initially by writing off deferred acquisition cost assets and subsequently by establishing a provision for losses arising from the liability adequacy tests. An amount of provision is made for each class of business individually. Any deferred acquisition cost asset written off cannot be reinstated subsequently.

Derecognition of insurance contract liabilities

Insurance contract liabilities are derecognised when they expire, are discharged or cancelled.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred acquisition costs

Policy acquisition costs which vary with and are primarily related to the production of new and renewing businesses (consisting principally of commission expenses, underwriting personnel expenses, government levies and surcharges) are deferred and amortised over the terms of the related insurance policies. Reinsurers' share of deferred acquisition costs is separately presented in the balance sheet as a liability item. Deferred acquisition costs are derecognised when the related contracts are settled or disposed of.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

– where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that they are probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Reinsurance

The Group assumes and/or cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be recognised if the reinsurance were considered a direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the terms of the reinsurance contracts. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when there is an indication of impairment.

Other employee benefits

Pension scheme

The employees of the Group are required to participate in a central pension scheme operated by the local municipal government of Mainland China. The Group is required to contribute 13.0% to 39.5% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

Share-based payment transactions

Senior executives working in the Group are granted share appreciation rights ("SAR"), which are settleable only in cash ("cash-settled transactions"). The cost of cash-settled transactions is measured initially at fair value using the Black-Scholes model at the grant date taking into account the terms and conditions upon which the instruments were granted (see note 40). This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(a) premium income, which earned on a pro rata basis over the term of the related policy coverage, on the policy inception;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Claims

Claims incurred include all claim losses occurring during the year, whether reported or not, including the related loss adjustment expenses, the reduction in the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all general administrative costs directly attributable to the claims function.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Profit appropriation

In accordance with the PRC Company Law and the Group's articles of association, the Group is required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC GAAP, to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. Subject to resolutions passed in shareholders' meetings, the statutory surplus reserve fund can be transferred to share capital. The balance of the statutory surplus reserve fund after transfers to share capital should not be less than 25% of the registered capital.

According to the relevant regulations of the PRC, with effect from 1 January 2007, the Company has to set aside 10% of its net profit determined in accordance with the PRC GAAP to general risk reserve for catastrophic losses. This general risk reserve cannot be used for dividend distribution or conversion to share capital.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, corporate management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification of financial assets

The Group classifies its financial assets in accordance with HKAS 39 as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. Certain of these classifications require judgements. In making these judgements, the Group considers the intention of holding these financial assets, the compliance with the requirements of HKAS 39 and their implications for the presentation in the financial statements.

Impairment of available-for-sale equity financial instruments

The Group determines that available-for-sale equity financial instruments are impaired when there has been a significant or prolonged decline in their fair values below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, including the normal volatility in share price, the financial health of the investee, the industry and sector performance, the changes in technology and the operating and financing cash flows.

Impairment of reinsurance assets

The Group performs an impairment review on its reinsurance assets when an indication of impairment occurs. In considering whether a reinsurance asset is impaired, the Group considers whether (i) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not be able to receive all amounts due to it under the terms of the contract; and (ii) the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Impairment loss on a right to acquire equity interests in a securities company

For the right to acquire an equity interest in a securities company, as explained in note 24 to the financial statements, judgement is required to determine when impairment is required.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty, including legislative changes and speed of settlement, that need to be considered in the estimation of the liability that the Group will ultimately pay for those claims. The Group uses a number of different actuarial techniques and assumptions to estimate the liability.

The directors believe that the loss and loss adjustment expense reserves at the balance sheet date are adequate to cover the ultimate costs of all incurred losses and direct loss adjustment expenses to that date. However, the reserves are necessarily based on estimates and no representation is made that the ultimate liability may not exceed or be less than such estimates.

Impairment loss on insurance receivables

The Group reviews its insurance receivables at each reporting date to assess whether an allowance should be recorded in the income statement.

In addition to specific allowances against individually significant insurance receivables, the Group also makes a collective impairment against a group of insurance receivables with similar credit risk characteristics. The extent of impairment is dependent on the estimation of the amount and the timing of future cash flows.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary reporting basis, by business segment. No further geographical segment information is presented as all of the Group's customers and operations are located in the PRC.

Summary details of the business segments are as follows:

(a) the motor vehicle segment provides insurance products covering motor vehicles;

(b) the commercial property segment provides insurance products covering commercial properties;

(c) the cargo segment provides insurance products covering vessels, crafts or conveyances;

(d) the liability segment provides insurance products covering policyholders' liabilities;

(e) the accidental injury segment provides insurance products covering accidental injuries; and

(f) the "other" segment mainly represents insurance products related to marine hull, homeowners, agriculture, aviation and energy.

4. SEGMENT INFORMATION *(continued)*

Information on the Group's reportable business segments is as follows:

2007 Income statement	Motor Vehicle *RMB million*	Commercial Property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental Injury *RMB million*	Other *RMB million*	Corporate *RMB million*	Total *RMB million*
Turnover	61,988	8,941	2,990	3,640	2,874	8,235	–	88,668
Net premiums earned	53,273	5,689	2,271	2,534	1,838	3,123	–	68,728
Net claims incurred	(36,283)	(4,347)	(1,016)	(1,603)	(1,133)	(2,562)	–	(46,944)
Amortisation of deferred acquisition costs, net	(8,954)	(836)	(334)	(387)	(253)	(387)	–	(11,151)
Insurance protection expenses	(576)	(59)	(23)	(27)	(18)	(46)	–	(749)
Profit before general and administrative expenses	7,460	447	898	517	434	128	–	9,884
General and administrative expenses	–	–	–	–	–	–	(11,311)	(11,311)
Net investment income	–	–	–	–	–	265	2,964	3,229
Net realised and unrealised gains on investments	–	–	–	–	–	165	4,277	4,442
Investment expenses	–	–	–	–	–	(9)	(279)	(288)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(248)	–	(248)
Exchange losses, net	–	–	–	–	–	–	(801)	(801)
Finance costs	–	–	–	–	–	–	(315)	(315)
Sundry income and expenses	–	–	–	–	–	–	(123)	(123)
Share of loss of associates	–	–	–	–	–	–	(13)	(13)
Profit/(loss) before tax	7,460	447	898	517	434	301	(5,601)	4,456
Tax	–	–	–	–	–	–	(1,465)	(1,465)
Profit/(loss) attributable to equity holders of the parent	7,460	447	898	517	434	301	(7,066)	2,991

4. SEGMENT INFORMATION *(continued)*

2006 Income statement	Motor Vehicle *RMB million*	Commercial Property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental Injury *RMB million*	Other *RMB million*	Corporate *RMB million*	Total *RMB million*
Turnover	49,837	8,193	2,763	3,013	2,561	4,981	–	71,348
Net premiums earned	41,502	5,747	2,073	2,160	1,827	2,307	–	55,616
Net claims incurred	(30,295)	(4,074)	(744)	(1,123)	(1,004)	(1,376)	–	(38,616)
Amortisation of deferred acquisition costs, net	(6,935)	(805)	(315)	(309)	(262)	(256)	–	(8,882)
Insurance protection expenses	(467)	(55)	(21)	(23)	(18)	(26)	–	(610)
Profit before general and administrative expenses	3,805	813	993	705	543	649	–	7,508
General and administrative expenses	–	–	–	–	–	–	(6,904)	(6,904)
Net investment income	–	–	–	–	–	271	1,418	1,689
Net realised and unrealised gains on investments	–	–	–	–	–	74	2,298	2,372
Investment expenses	–	–	–	–	–	(10)	(54)	(64)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(138)	–	(138)
Exchange losses, net	–	–	–	–	–	–	(426)	(426)
Finance costs	–	–	–	–	–	–	(209)	(209)
Sundry income and expenses	–	–	–	–	–	–	(30)	(30)
Share of profit of associates'	–	–	–	–	–	–	2	2
Profit/(loss) before tax	3,805	813	993	705	543	846	(3,905)	3,800
Tax	–	–	–	–	–	–	(1,718)	(1,718)
Profit/(loss) attributable to equity holders of the parent	3,805	813	993	705	543	846	(5,623)	2,082

4. SEGMENT INFORMATION *(continued)*

The segment assets and liabilities for the years ended 31 December 2007 and 2006 are shown as follows:

2007 Balance sheet	Motor Vehicle *RMB million*	Commercial Property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental Injury *RMB million*	Other *RMB million*	Corporate *RMB million*	Total *RMB million*
Total assets	14,164	5,990	1,029	1,606	1,584	8,150	101,742	134,265
Total liabilities	55,753	8,846	2,019	4,078	4,816	20,242	12,433	108,187

2006 Balance sheet	Motor Vehicle *RMB million*	Commercial Property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental Injury *RMB million*	Other *RMB million*	Corporate *RMB million*	Total *RMB million*
Total assets	10,310	4,561	726	1,117	1,057	6,310	82,893	106,974
Total liabilities	42,259	6,541	1,579	2,692	2,361	18,957	11,858	86,247

Capital expenditure, depreciation and impairment charges, which are not attributable to particular insurance products, are not allocated.

5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	Group 2007 RMB million	2006 RMB million
Turnover		
Direct premiums written	88,594	71,300
Reinsurance premiums assumed	74	48
	88,668	71,348
Net premiums earned		
Turnover	88,668	71,348
Less: Reinsurance premiums ceded	(13,779)	(10,311)
Net premiums written	74,889	61,037
Less: Change in net unearned premium reserves *(note 34)*	(6,161)	(5,421)
Net premiums earned	68,728	55,616

6. NET CLAIMS INCURRED

	Group 2007 RMB million	2006 RMB million
Gross claims paid	48,695	44,432
Less: Paid losses recoverable from reinsurers	(7,592)	(6,991)
Net claims paid	41,103	37,441
Change in net loss and loss adjustment expense reserves *(note 34)*	5,841	1,175
Net claims incurred	46,944	38,616

7. NET INVESTMENT INCOME

	Group	
	2007	2006
	RMB million	*RMB million*
Rental income from investment properties	**54**	36
Financial assets at fair value through profit or loss		
– Held for trading purpose:		
Interest income	**92**	56
Dividend income	**953**	94
Financial assets at fair value through profit or loss		
– Designated upon initial recognition:		
Interest income	**7**	11
Available-for-sale financial assets:		
Interest income	**875**	591
Dividend income	**199**	4
Loans and receivables:		
Interest income	**1,049**	897
	3,229	1,689

8. NET REALISED AND UNREALISED GAINS/(LOSSES) ON INVESTMENTS

	Group	
	2007	2006
	RMB million	*RMB million*
Available-for-sale financial assets:		
Realised gains	**1,118**	38
Reversal of impairment	**–**	5
Financial assets at fair value through profit or loss		
– Held for trading:		
Realised gains/(losses)	**2,541**	(237)
Unrealised gains	**849**	2,650
Financial assets at fair value through profit or loss		
– Designated upon initial recognition:		
Unrealised gains/(losses)	**50**	(84)
Loans and receivables:		
Impairment loss	**(116)**	–
	4,442	2,372

9. EXCHANGE LOSSES, NET

Exchange gains/(losses) are attributable to the following functions:

	Group 2007 RMB million	2006 RMB million
Net realised and unrealised losses on term deposits	(829)	(403)
Net claims incurred	15	8
General and administrative expenses	13	(31)
	(801)	(426)

10. FINANCE COSTS

	Group 2007 RMB million	2006 RMB million
Interest on subordinated debts	122	111
Interest on securities sold under agreements to repurchase	111	56
Other finance costs	82	42
	315	209

11. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2007 *RMB million*	2006 *RMB million*
Auditors' remuneration, including interim review		18	18
Depreciation of property, plant and equipment	27	876	933
Depreciation of investment properties	28	20	15
Amortisation of prepaid land premiums	29	113	102
Employee expenses (including directors' remuneration *(note 12)*):			
Wages salaries and staff welfare		5,502	4,665
Cash-settled share appreciation rights expense		752	102
Pension scheme contributions		583	409
Impairment loss on insurance receivables		627	98
Minimum lease payments under operating leases in respect of land and buildings		397	394
Net loss on disposal of items of property, plant and equipment		2	3

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007 *RMB'000*	2006 *RMB'000*
Fees	2,892	2,841
Other emoluments:		
Salaries, allowances, benefits in kind and performance related bonuses	5,011	4,636
Pension scheme contributions	421	850
	8,324	8,327

Certain directors and supervisors are entitled to bonuses which are determined by a number of factors including the operating results of the Group.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 *RMB'000*	2006 *RMB'000*
Mr. Cheng Wai Chee, Christopher	277	293
Mr. Lu Zhengfei	277	295
Mr. Luk Kin Yu, Peter	277	293
Mr. Ding Ning Ning	277	295
	1,108	1,176

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

12. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

(b) Chairman of Board, executive directors, non-executive directors and supervisors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2007					
Chairman of Board:					
Mr. Wu Yan	137	700	456	99	1,392
Mr. Tang Yunxiang (Resigned)	–	61	480	14	555
Executive directors:					
Mr. Wang Yi (President)	137	700	456	99	1,392
Mr. Wang Yincheng	137	537	302	78	1,054
Mdm. Liu Zhenghuan	137	567	318	81	1,103
Non-executive directors:					
Mr. Tse Sze-Wing, Edmund	137	–	–	–	137
Mr. Wu Gaolian	137	–	–	–	137
Mr. Zhou Shurui	137	–	–	–	137
Mr. Li Tao	137	–	–	–	137
Supervisors:					
Mr. Ding Yunzhou (Chairman)	137	–	–	–	137
Mr. Sheng Hetai	137	–	–	–	137
Mr. He Bangshun	137	312	122	50	621
Independent supervisor:					
Mr. Li Dianjun	277	–	–	–	277
	1,784	2,877	2,134	421	7,216

Apart from the independent non-executive directors, an independent supervisor and non-executive directors (excluding a non-Mainland China resident), directors' fees were not yet paid as at the balance sheet date.

In respect of the SAR granted to senior executives, as the administration of the related SAR scheme was being reviewed by a major shareholder, the relevant scheme of senior executives were still subject to further deliberation.

12. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

(b) Chairman of Board, executive directors, non-executive directors and supervisors *(continued)*

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2006					
Chairman of Board:					
Mr. Tang Yunxiang	137	737	126	159	1,159
Executive directors:					
Mr. Wang Yi (President)	137	700	120	152	1,109
Mr. Wang Yincheng	137	537	162	120	956
Mdm. Liu Zhenghuan	137	567	170	125	999
Non-executive directors:					
Mr. Tse Sze-Wing, Edmund	137	–	–	–	137
Mr. Ding Yunzhou	137	–	–	–	137
Mr. Wu Gaolian	–	–	–	–	–
Mr. Zhou Shurui	137	–	–	–	137
Mr. Li Tao	–	–	–	–	–
Supervisors:					
Mr. Ding Zhaoyu (Chairman)	–	–	–	–	–
Mr. Sheng Hetai	–	–	–	–	–
Mr. He Bangshun	–	353	–	71	424
Past supervisors:					
Mr. Deng Zhaoyu (ex-Chairman)	137	700	120	152	1,109
Mr. Tang Wei	137	–	–	–	137
Mr. Liu Qilong	137	344	–	71	552
Independent supervisor:					
Mr. Li Dianjun	295	–	–	–	295
	1,665	3,938	698	850	7,151

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

13. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees during the current and prior years were either directors or supervisors of the Company.

14. TAX

The provision for PRC income tax is calculated based on the statutory rate of 33% (2006: 33%) in accordance with the relevant PRC income tax rules and regulations.

	2007 *RMB million*	2006 *RMB million*
Group:		
Current – charge for the year	**1,572**	780
Deferred *(note 33)*	**(107)**	938
Total tax charge for the year	**1,465**	1,718

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate for the PRC, in which the Group is domiciled, to the tax expense at the effective tax rate, and a reconciliation of the applicable rate, i.e. the statutory tax rate, to the effective tax rate, is as follows:

Group	**2007** *RMB million*	*%*	2006 *RMB million*	*%*
Profit before tax	**4,456**		3,800	
Tax at the statutory tax rate of 33%	**1,470**	**33.0**	1,254	33.0
Income not subject to tax	**(174)**	**(3.9)**	(144)	(3.8)
Effect of change in tax rate	**(454)**	**(10.2)**	–	–
Expenses not deductible for tax	**623**	**14.0**	608	16.0
Tax charge at the Group's effective rate	**1,465**	**32.9**	1,718	45.2

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and has become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Accordingly, the Group reduced the effective tax rate used in determining its deferred tax assets and liabilities as at 31 December 2007.

15. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to the ordinary equity holders of the parent of RMB2,991 million (2006: RMB2,082 million) and 11,142 million (2006: 11,142 million) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during these years.

16. DIVIDEND PER SHARE

During the year, the Board of Directors declared an interim dividend of RMB1,014 million (2006: Nil). The Board of Directors did not propose any final dividend for the year (2006: Nil).

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	2007	2006
	RMB million	*RMB million*	*RMB million*	*RMB million*
Cash on hand, at amortised cost	27	25	27	25
Demand deposits, at amortised cost	14,761	12,623	14,758	12,620
Securities purchased under resale agreements with original maturity of less than three months, at amortised cost	2,896	307	2,896	307
Deposits with banks and other financial institutions with original maturity of less than three months, at amortised cost	7,630	8,651	7,630	8,651
Deposits with banks and other financial institutions with original maturity of more than three months, at amortised cost	2,054	2,890	2,054	2,890
Structured deposits with banks and other financial institutions:				
at fair value	729	1,093	729	1,093
at amortised cost	2,692	2,785	2,692	2,785
	30,789	28,374	30,786	28,371
Classification of cash and cash equivalents:				
Loans and receivables	30,060	27,281	30,057	27,278
Designated as fair value through profit or loss financial assets	729	1,093	729	1,093
	30,789	28,374	30,786	28,371

17. CASH AND CASH EQUIVALENTS *(continued)*

At 31 December 2007, RMB296 million (2006: RMB217 million) was included in deposits with banks and other financial institutions as an accrued insurance protection fund. The amount was maintained in accordance with the relevant PRC insurance law and regulations for insurance protection and restricted in use. Details of the restrictions are disclosed in note 31 to the financial statements.

Certain structured deposits maintained with PRC banks and other financial institutions are designated as financial instruments at fair value through profit or loss upon the initial adoption of HKAS 39. The returns of certain structured deposits are linked to certain US dollar-denominated debt instruments or the London Inter-Bank Offered Rate. Embedded in some of these structured deposits are options to enter into new and different structured deposit arrangements at their maturity dates.

For structured deposits designated as financial assets at fair value through profit or loss, the changes in fair value attributable to changes in credit risk during the year and since their initial designation were immaterial.

Debt securities of RMB2,896 million (2006: RMB307 million) were held by the Group as collaterals under securities repurchase transactions as at the balance sheet date.

The carrying amounts of cash and cash equivalents approximate to their fair values.

18. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Group and Company	
	2007	2006
	RMB million	*RMB million*
Interest rate swaps assets/(liabilities)	**(35)**	6

The carrying amounts of interest rate swaps are the same as their fair values.

The Company is exposed to the variability of cash flows on financial assets which bear interest at a variable rate, and therefore uses interest rate swaps to hedge its risks by receiving interest at a fixed rate from counterparties and paying interest at a variable rate. The terms of these swap contracts are as follows:

Floating rate	**Fixed rate**	**Maturity**	**Aggregate notional amount** *RMB million*
2007:			
7-day fixing Repo rate or 1-year deposit rate by the People's Bank of China	2.900%-4.000%	10 August 2010-18 May 2014	850
2006:			
7-day fixing Repo rate or 1-year deposit rate by the People's Bank of China	2.781%-2.980%	30 August 2007-6 December 2011	550

The cash flow hedges were assessed to be highly effective and a net loss of RMB30 million (2006: net gain of RMB4 million) was included in the cash flow hedging reserve. There was no gain or loss removed from the hedging reserve in 2006 and 2007.

19. DEBT SECURITIES

	Group and Company	
	2007	2006
	RMB million	RMB million
Listed debt securities, at fair value:		
Debt securities issued by the governments	10,828	12,404
Debt securities issued by corporate entities	1,928	1,278
	12,756	13,682
Unlisted debt securities, at fair value:		
Debt securities issued by the governments	3,512	1,527
Debt securities issued by banks and other financial institutions	8,505	3,507
Debt securities issued by corporate entities	3,692	4,173
	15,709	9,207
	28,465	22,889
Classification of debt securities:		
Fair value through profit or loss – held for trading	4,284	1,273
Available-for-sale	24,181	21,616
	28,465	22,889

The fair values are based on quoted market prices or broker/dealer price quotations.

20. EQUITY SECURITIES

	Group and Company	
	2007	2006
	RMB million	*RMB million*
Listed investments, at fair value:		
Mutual funds	**2,435**	3,043
Shares	**11,590**	3,871
	14,025	6,914
Unlisted investments, at fair value:		
Mutual funds	**2,953**	1,048
	16,978	7,962
Classification of equity securities:		
Fair value through profit or loss – held for trading	**5,886**	4,167
Available-for-sale	**11,092**	3,795
	16,978	7,962

The fair values are based on quoted market prices or bid prices quoted by mutual fund management companies.

21. INSURANCE RECEIVABLES, NET

	Group and Company	
	2007	2006
	RMB million	*RMB million*
Premiums receivable and agents' balances	**7,229**	4,343
Receivables from reinsurers	**7,691**	3,571
	14,920	7,914
Less: Impairment losses on:		
Premiums receivable and agents' balances	**(1,017)**	(383)
Receivables from reinsurers	**(5)**	(12)
	13,898	7,519

The movements in the provision for impairment of insurance receivables are as follows:

	Group and Company	
	2007	2006
	RMB million	*RMB million*
At 1 January	**395**	297
Charge for the year	**634**	98
Impairment losses reversed	**(7)**	–
At 31 December	**1,022**	395

The carrying amounts disclosed above reasonably approximate to their fair values at each year end.

22. REINSURANCE ASSETS

	Group and Company	
	2007	2006
	RMB million	*RMB million*
Reinsurers' share of:		
Unearned premium reserves *(note 34)*	**5,809**	4,881
Loss and loss adjustment expense reserves *(note 34)*	**5,327**	4,864
	11,136	9,745

23. DEFERRED ACQUISITION COSTS

Group and Company	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*
At 1 January 2007	**6,817**	**(1,315)**	**5,502**
Costs deferred during the year	**15,254**	**(3,890)**	**11,364**
Amortisation for the year	**(14,581)**	**3,430**	**(11,151)**
At 31 December 2007	**7,490**	**(1,775)**	**5,715**
At 1 January 2006	5,719	(1,642)	4,077
Costs deferred during the year	13,242	(2,935)	10,307
Amortisation for the year	(12,144)	3,262	(8,882)
At 31 December 2006	6,817	(1,315)	5,502

Group and Company	2007			2006		
	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*
Current	6,582	(1,337)	5,245	6,043	(1,166)	4,877
Non-current	908	(438)	470	774	(149)	625
	7,490	(1,775)	5,715	6,817	(1,315)	5,502

24. OTHER FINANCIAL ASSETS AND PREPAYMENTS

		Group and Company	
		2007	2006
	Notes	*RMB million*	*RMB million*
Unlisted debts		**3,780**	2,910
Capital security fund	(i)	**2,228**	2,228
Interest receivables		**633**	616
Prepayments and deposits	(ii)	**827**	624
Other receivables	(iii)	**427**	487
Amount due from the PICC Group *(note 45(c))*		**36**	–
Others assets		**434**	329
		8,365	7,194

Notes:

(i) In accordance with the PRC Insurance Law, the Group is required to maintain a deposit equivalent to 20% of its registered capital with banks designated by the China Insurance Regulatory Commission (the "CIRC") as a security fund. The use of the security fund is subject to the approval of the CIRC.

(ii) Included in the prepayments and deposits as at 31 December 2007 was a consideration of RMB588 million (2006: RMB468 million) paid for a right to a 1.96% economic interest in the issued share capital of a new securities company. It represents the right to receive dividends, proceeds from the disposal of the equity interests of the securities company, and the right to register as a shareholder. The Company obtained this right under the restructuring scheme of another securities company, which sold its securities business and assets to this new securities company. The consideration represented the government bonds originally registered under the trading seats of the securities company under the restructuring.

(iii) Included in the other receivables as at 31 December 2007 was an amount of RMB366 million (2006: RMB366 million) due from another securities company under liquidation. The balance was fully impaired (2006: an impairment loss of RMB250 million was made) as at 31 December 2007.

Except for the right to the equity interest in the new securities company and unlisted debts, the carrying amounts disclosed above reasonably approximate to their fair values at the year end. The fair value of the right to the equity could not be measured reliably. The fair value of the unlisted debts as at 31 December 2007 was RMB3,888 million (2006: RMB3,088 million), which were estimated by using the quoted market prices of securities with similar credit, maturity and yield characteristics.

25. INTERESTS IN ASSOCIATES

	Group		Company	
	2007	2006	**2007**	2006
	RMB million	*RMB million*	***RMB million***	*RMB million*
Unlisted shares, at cost	**–**	–	**972**	160
AVIF	**33**	–	**–**	–
Goodwill on acquisition	**16**	–	**–**	–
Share of net assets	**976**	162	**–**	–
	1,025	162	**972**	160

During the year, the Company entered into an agreement to contribute RMB812 million to the enlarged registered capital of PICC Life Insurance Company Limited.

Particulars of the associates are as follows:

Name	**Place of registration and operations**	**Nominal value of registered share capital** *(RMB million)*	**Percentage of equity directly attributable to the Group**	**Principal activities**
PICC Asset Management Company Limited ("PICC AMC")	Mainland China	800	20	Asset management services
PICC Life Insurance Company Limited ("PICC Life")	Mainland China	2,708	28	Provision of life insurance products

25. INTERESTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information of the Group's associates:

	PICC Life		PICC AMC	
	2007	2006	**2007**	2006
	RMB million	*RMB million*	***RMB million***	*RMB million*
Share of the associate's balance sheet:				
Assets	**2,341**	–	**238**	170
Liabilities	**(1,544)**	–	**(59)**	(8)
Net assets	**797**	–	**179**	162
Share of the associate's revenue and profit/(loss):				
Revenue	**1,098**	–	**36**	15
Profit/(loss)	**(29)**	–	**16**	2

26. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	RMB million	*RMB million*
Unlisted shares, at cost	**3**	3

Particulars of the subsidiaries are as follows:

Name	**Place of registration and operations**	**Nominal value of registered share capital** *(RMB million)*	**Percentage of equity directly attributable to the Company**
PICC Hebi Insurance Agency Company Limited*	Mainland China	0.5	100
PICC Qingdao Insurance Agency Company Limited*	Mainland China	0.5	90
PICC Hebei Insurance Agency Company Limited*	Mainland China	1.0	100
PICC Haikou Training Center Company Limited*	Mainland China	0.1	100

* Registered as company limited enterprises under the PRC Company Law.

The principal activities of these subsidiaries are mainly the provision of insurance agency services and training services to the Group.

27. PROPERTY, PLANT AND EQUIPMENT

Group and Company

	Land and buildings *RMB million*	Motor vehicles *RMB million*	Office equipment, furniture and fixtures *RMB million*	Construction in progress *RMB million*	Total *RMB million*
Cost:					
At 1 January 2007	9,862	1,444	2,625	1,872	15,803
Additions	103	178	345	207	833
Transfers	335	–	–	(335)	–
Transfers to investment properties *(note 28)*	(133)	–	–	–	(133)
Disposals	(35)	(92)	(153)	–	(280)
At 31 December 2007	10,132	1,530	2,817	1,744	16,223
Accumulated depreciation:					
At 1 January 2007	(1,366)	(990)	(1,544)	–	(3,900)
Charge for the year	(363)	(121)	(392)	–	(876)
Transfers to investment properties *(note 28)*	24	–	–	–	24
Disposals	10	92	148	–	250
At 31 December 2007	(1,695)	(1,019)	(1,788)	–	(4,502)
Net book value:					
At 31 December 2007	8,437	511	1,029	1,744	11,721

27. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group and Company	Land and buildings *RMB million*	Motor vehicles *RMB million*	Office equipment, furniture and fixtures *RMB million*	Construction in progress *RMB million*	Total *RMB million*
Cost:					
At 1 January 2006	9,873	1,446	2,610	1,756	15,685
Additions	65	148	185	522	920
Transfers	355	–	11	(366)	–
Transfers to investment properties *(note 28)*	(279)	–	–	–	(279)
Transfers to prepaid land premiums *(note 29)*	–	–	–	(40)	(40)
Disposals	(152)	(150)	(181)	–	(483)
At 31 December 2006	9,862	1,444	2,625	1,872	15,803
Accumulated depreciation:					
At 1 January 2006	(1,092)	(994)	(1,267)	–	(3,353)
Charge for the year	(339)	(140)	(454)	–	(933)
Transfer to investment properties *(note 28)*	34	–	–	–	34
Disposals	31	144	177	–	352
At 31 December 2006	(1,366)	(990)	(1,544)	–	(3,900)
Net book value:					
At 31 December 2006	8,496	454	1,081	1,872	11,903

The Group's land and buildings and construction in progress are situated in Mainland China and held under medium term leases.

As at 31 December 2007, certain acquired buildings of the Group with a net book value of RMB509 million (2006: RMB733 million) were in the process of title registration.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of property, plant and equipment at 31 December 2007 amounted to RMB1,931 million (2006: RMB1,874 million).

28. INVESTMENT PROPERTIES

	Group and Company 2007 RMB million	2006 RMB million
Cost:		
At 1 January	548	269
Transfers from property, plant and equipment *(note 27)*	133	279
At 31 December	681	548
Accumulated depreciation:		
At 1 January	(105)	(56)
Charge for the year	(20)	(15)
Transfers from property, plant and equipment *(note 27)*	(24)	(34)
At 31 December	(149)	(105)
Net book value at 31 December	532	443

As at 31 December 2007, the fair value of the investment properties was RMB699 million (2006: RMB612 million). The fair value of the properties is determined by the directors with reference to recent market transactions.

The Group's investment properties are situated in Mainland China and held under medium term leases.

29. PREPAID LAND PREMIUMS

	Group and Company 2007 RMB million	2006 RMB million
At 1 January	3,960	4,000
Additions	19	22
Transfers from construction in progress *(note 27)*	–	40
Amortisation recognised during the year	(113)	(102)
At 31 December	3,866	3,960

29. PREPAID LAND PREMIUMS *(continued)*

The leasehold land is situated in Mainland China and held under the following terms:

	Group and Company	
	2007	2006
	RMB million	*RMB million*
Long term leases	**88**	90
Medium term leases	**3,778**	3,870
	3,866	3,960

30. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	Group and Company	
	2007	2006
	RMB million	*RMB million*
Reinsurance payables	**9,813**	4,172
Reinsurance funds withheld	**–**	69
	9,813	4,241

The reinsurance payables are non-interest-bearing and are due within three months from the balance sheet date or are repayable on demand. The reinsurance funds withheld as at 31 December 2006 were repayable upon the expiration of the related reinsurance contracts.

The carrying amounts disclosed above reasonably approximate to their fair values at each year end.

31. ACCRUED INSURANCE PROTECTION FUND

	Group and Company	
	2007	2006
	RMB million	RMB million
At 1 January	217	195
Accrued during the year	749	610
Paid during the year	(670)	(588)
At 31 December	296	217

The Group is obligated to pay into an insurance protection fund an amount based on a rate of 1% of its annual retained premiums in accordance with the relevant PRC insurance law and regulations. No further provision is required once the accumulated balance has reached 6% (2006: 6%) of the Group's total assets as determined in accordance with the PRC GAAP.

Insurance companies are required to deposit their insurance protection fund in a bank account designated by the CIRC on a quarterly basis.

32. OTHER LIABILITIES AND ACCRUALS

	Group and Company	
	2007	2006
	RMB million	RMB million
Premiums received in advance	2,639	2,333
Salaries and staff welfare payables	1,364	1,461
Liabilities arising from share appreciation rights *(note 40)*	480	84
Accrued capital expenditure	78	116
Amounts due to associates *(note 45(c))*	20	10
Securities sold under agreements to repurchase	–	200
Amount due to the PICC Group *(note 45(c))*	–	26
Others	3,528	2,398
	8,109	6,628

Securities sold under agreements to repurchase do not qualify for derecognition as the Group has committed to repurchasing these securities under predetermined terms. The carrying amount of financial assets that do not qualify for derecognition as at 31 December 2006 was RMB200 million, while the borrowings obtained under these repurchase transactions were disclosed as above.

The carrying amounts disclosed above reasonably approximate to their fair values at each year end.

33. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group and Company	Revaluation of fair value through profit or loss *RMB million*	Revaluation of available-for-sale financial instruments *RMB million*	Cash flow hedging *RMB million*	Depreciation of property, plant and equipment *RMB million*	Deferred acquisition costs *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets:							
At 1 January 2007	–	–	(2)	190	434	353	975
Deferred tax (charged)/ credited to the income statement during the year *(note 14)*	–	–	–	(138)	10	129	1
Deferred tax debited to equity during the year	–	–	11	–	–	–	11
Gross deferred tax assets at 31 December 2007	–	–	9	52	444	482	987
Deferred tax liabilities:							
At 1 January 2007	(253)	(377)	–	–	(2,250)	–	(2,880)
Deferred tax charged/(credited) to the income statement during the year *(note 14)*	(271)	–	–	–	377	–	106
Deferred tax debited to equity during the year	–	(990)	–	–	–	–	(990)
Gross deferred tax liabilities at 31 December 2007	(524)	(1,367)	–	–	(1,873)	–	(3,764)
Net deferred tax liabilities at 31 December 2007							(2,777)

33. DEFERRED TAX *(continued)*

Group and Company	Revaluation of fair value through profit or loss *RMB million*	Revaluation of available-for-sale financial instruments *RMB million*	Cash flow hedging *RMB million*	Depreciation of property, plant and equipment *RMB million*	Deferred acquisition costs *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets:							
At 1 January 2006	–	–	–	225	542	265	1,032
Deferred tax (charged)/ credited to the income statement during the year *(note 14)*	–	–	–	(35)	(108)	88	(55)
Gross deferred tax assets at 31 December 2006	–	–	–	190	434	353	977
Deferred tax liabilities:							
At 1 January 2006	267	37	–	–	(1,887)	–	(1,583)
Deferred tax credited to the income statement during the year *(note 14)*	(520)	–	–	–	(363)	–	(883)
Deferred tax debited to equity during the year	–	(414)	(2)	–	–	–	(416)
Gross deferred tax liabilities at 31 December 2006	(253)	(377)	(2)	–	(2,250)	–	(2,882)
Net deferred tax liabilities at 31 December 2006							(1,905)

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The change in respect of the deferred tax assets recognised arising from the revaluation of available-for-sale investments is taken to the available-for-sale investment revaluation reserve.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities as they relate to the same tax authority.

34. INSURANCE CONTRACT LIABILITIES

	Group and Company 2007 RMB million	2006 RMB million
Unearned premium reserves	43,931	36,842
Loss and loss adjustment expense reserves	29,184	22,880
	73,115	59,722

Movements of insurance contract liabilities and their corresponding reinsurance assets were set out below:

Group and Company	2007 Gross amount RMB million	2007 Reinsurers' share RMB million (note 22)	2007 Net amount RMB million	2006 Gross amount RMB million	2006 Reinsurers' share RMB million (note 22)	2006 Net amount RMB million
Unearned premium reserves:						
At 1 January	36,842	(4,881)	31,961	32,507	(5,967)	26,540
Increase during the year	36,304	(5,012)	31,292	43,624	(4,908)	38,716
Release during the year	(29,215)	4,084	(25,131)	(39,289)	5,994	(33,295)
At 31 December	43,931	(5,809)	38,122	36,842	(4,881)	31,961
Loss and loss adjustment expense reserves:						
At 1 January	22,880	(4,864)	18,016	22,026	(5,185)	16,841
Increase during the year	54,999	(8,055)	46,944	45,286	(6,670)	38,616
Release during the year	(48,695)	7,592	(41,103)	(44,432)	6,991	(37,441)
At 31 December	29,184	(5,327)	23,857	22,880	(4,864)	18,016
Total insurance contract liabilities	73,115	(11,136)	61,979	59,722	(9,745)	49,977

An analysis of expected settlements of these liabilities was set out below:

	2007 Gross amount	2007 Reinsurers' share	2007 Net amount	2006 Gross amount	2006 Reinsurers' share	2006 Net amount
Current	61,101	(8,727)	52,374	49,697	(7,641)	42,056
Non-current	12,014	(2,409)	9,605	10,025	(2,104)	7,921
	73,115	(11,136)	61,979	59,722	(9,745)	49,977

35. POLICYHOLDERS' DEPOSITS

Policyholders' deposits consist of interest-bearing and non-interest-bearing deposits placed by policyholders.

An analysis of interest-bearing and non-interest-bearing deposits is set out below:

	Group and Company	
	2007	2006
	RMB million	*RMB million*
Interest-bearing deposits	**5,926**	6,742
Non-interest-bearing deposits	**2,027**	2,152
	7,953	8,894

Certain contracts offered by the Group require that the policyholders place a deposit with the Group which is refundable upon maturity, which varies from one year to perpetuity, and bears no interest. A contract holder can terminate the contract before the maturity date without penalties. The main feature of this product is that an insurance coverage is fixed at the inception of the policy and remains in effect during the policy period or until terminated by the contract holder.

From 2002, the Group has underwritten policies of another kind of homeowners insurance product containing both insurance and investment features. Policyholders deposit a fixed principal amount which is only refundable upon the maturity of the policy of three or five years, and the policyholders receive a fixed rate of interest. Penalties on early termination are charged according to the terms stated in the contract.

The carrying amounts disclosed above reasonably approximate to their fair values at the year end.

36. SUBORDINATED DEBTS ISSUED BY THE COMPANY

On 19 December 2006, the Company issued subordinated debts of RMB3,000 million to a number of institutional investors. These debts are unsecured and have a maturity period of 10 years, bear interest at a rate of 4.08% per annum in the first five years and a rate of 6.08% per annum in the remaining years. The Company has an option to redeem the subordinated debts at the end of the first five years.

As at 31 December 2007, the fair value of these subordinated debts was RMB3,142 million (2006: RMB3,425 million). The fair value has been estimated using the quoted market prices for securities with similar credit, maturity and characteristics.

37. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

(a) Insurance contracts liabilities

Terms

Loss and loss adjustment expense reserves are refined on a quarterly basis as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. The reserves are not discounted for the time value of money.

The measurement process primarily includes projection of future claim costs through a combination of actuarial and statistical projection techniques.

Estimates of gross loss and loss adjustment expense reserves are based on the following selected methods:

Line	Estimation method
Aviation and energy	• Incurred claims loss development; and • Incurred claims Bornhuetter-Ferguson.
Other lines	• Incurred claims loss development; • Payment per claim incurred; • Incurred claims Bornhuetter-Fergusons; and • Loss ratio method.

Reinsurance recoveries on unpaid claims are separately estimated for proportional treaties including statutory treaties, facultative reinsurance arrangements and other treaties applying to cargo, liabilities, marine and non-marine.

Reinsurance	Estimation method
Proportional treaty	• As a certain percentage of gross claim liabilities.
Facultative	• Case estimates in individual large claims.
Other treaties	• Incurred claims Bornhuetter-Ferguson.

Assumptions and sensitivities

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

37. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(continued)*

(a) Insurance contracts liabilities *(continued)*

Assumptions and sensitivities (continued)

As different statistical projection techniques may produce different estimates, the directors choose results that are considered appropriate for the observed claims development patterns. The range of reasonable estimates of loss and loss adjustment expense reserves, projected by different statistical techniques and various key assumptions, represents the different views of the fluctuation impacts on the speed of settlements, the changes in premium rates and the underwriting controls over ultimate losses. As at 31 December 2007, the net loss and loss adjustment reserve recorded in these financial statements were RMB23,857 million (see note 34, 2006: RMB18,016 million), which was within a range of reasonable actuarial estimates.

The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the loss and loss adjustment reserves are not quantifiable with certainty at the balance sheet date.

Reproduced below is an analysis that shows the development of claims over a period of time on gross and net bases:

Accident year	2001	2002	2003	2004	2005	2006	2007	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Gross basis	*million*	*million*	*million*	*million*	*million*	*million*	*million*	*million*
Estimated cumulative claims costs at:								
End of current year			35,469	41,015	39,768	42,674	51,319	210,245
One year later		33,297	37,724	40,758	40,397	43,700		195,876
Two years later	28,078	34,081	38,706	41,334	40,075			182,274
Three years later	28,198	34,192	38,803	41,515				142,708
Four years later	28,229	34,215	39,040					101,484
Five years later	28,175	34,328						62,503
Six years later	28,199							28,199
Estimated cumulative claims cost	28,199	34,328	39,040	41,515	40,075	43,700	51,319	278,176
Cumulative claims cost	(28,182)	(33,936)	(38,823)	(40,974)	(39,022)	(39,877)	(29,084)	(249,898)
Liability recognised in the balance sheet	17	392	217	541	1,053	3,823	22,235	28,278
Liability in respect of prior years and unallocated loss adjustment expenses								906
Gross liability included in the balance sheet								29,184

37. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(continued)*

(a) Insurance contracts liabilities *(continued)*

Assumptions and sensitivities (continued)

Accident year / **Net basis**	2001 *RMB million*	2002 *RMB million*	2003 *RMB million*	2004 *RMB million*	2005 *RMB million*	2006 *RMB million*	2007 *RMB million*	Total *RMB million*
Estimated cumulative claims costs at:								
End of current year			27,215	33,316	32,788	35,405	43,791	172,515
One year later		25,631	29,421	33,119	33,406	36,195		157,772
Two years later	21,779	26,357	30,225	33,652	33,159			145,172
Three years later	21,863	26,274	30,306	33,791				112,234
Four years later	21,877	26,242	30,489					78,608
Five years later	21,813	26,329						48,142
Six years later	21,832							21,832
Estimated cumulative claims cost	21,832	26,329	30,489	33,791	33,159	36,195	43,791	225,586
Cumulative claims cost	(21,818)	(26,253)	(30,322)	(33,438)	(32,430)	(33,341)	(25,029)	(202,631)
Liability recognised in the balance sheet	14	76	167	353	729	2,854	18,762	22,955
Liability in respect of prior years and unallocated loss adjustment expenses								902
Net liability included in the balance sheet								23,857

The liabilities as at 31 December 2001 and 2002, which are based on an actuarial valuation performed on 27 October 2003, are extracted from the Company's prospectus dated 27 October 2003 issued in respect of the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE").

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years' financial statements.

37. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(continued)*

(b) Reinsurance assets – Terms, assumptions and methods

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota share basis or surplus line basis with retention limits varying by product line. Excess of loss catastrophic reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. During the year, the Group's premiums ceded to the top three reinsurance companies amounted to RMB10,096 million (2006: RMB7,513 million) and thus a credit exposure exists with respect to the business ceded, to the extent that any of these reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

38. ISSUED SHARE CAPITAL

	2007 *RMB million*	2006 *RMB million*
Shares		
Registered, issued and fully paid:		
7,685,820,000 domestic shares of RMB1.00 each	7,686	7,686
3,455,980,000 H shares of RMB1.00 each	3,456	3,456
	11,142	11,142

39. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group meets all obligations arising from the insurance contracts and the applicable insurance laws and regulations in the PRC so as to support the growth of business and maximise the shareholders' value.

The Company manages its capital requirements by monitoring the solvency margin which is the difference between the regulatory capital held and the minimum regulatory capital required on a regular basis. The table below summarises the minimum regulatory capital and the regulatory capital held by the Company:

	31 December 2007			31 December 2006		
	Regulatory capital held *RMB million*	Minimum regulatory capital *RMB million*	Solvency margin ratio	Regulatory capital held *RMB million* (restated)	Minimum regulatory capital *RMB million* (restated)	Solvency margin ratio (restated)
Solvency margin	21,243	11,235	189%	13,556	9,143	148%

The premium to capital ratio is the ratio of retained premiums in any financial year to the sum of paid-in capital, capital reserves and surplus reserves. Pursuant to the PRC Insurance Law, this premium to capital ratio may not exceed four for any property and casualty insurance company in any financial year. The premium to capital ratio for the Company as at 31 December 2007 was 3.66 (2006: 3.62).

40. SHARE APPRECIATION RIGHTS

The shareholders of the Company approved the adoption of a scheme of share appreciation rights for senior management on 30 July 2003. The scheme is designed to link the interest of the Company's senior management with the Group's results of operations and the Company's share value (market price of its H Shares). The Board of Directors of the Company is responsible for making decisions under the scheme and administering the scheme. No shares will be issued under the scheme. Therefore, the shareholdings of shareholders will not be diluted as a result of the issuance of SAR.

Under the SAR scheme, the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee (excluding independent supervisors), president, vice presidents, chief financial officer, division managers of the Company, presidents of the provincial/municipal level branch offices, employees with special contribution to the Company as determined by the Company's Nomination, Remuneration and Review Committee, and other senior management at equivalent levels are eligible to receive SAR.

SAR will be granted in units with each unit representing one H Share. SAR granted in aggregate may not exceed 10% of the issued share capital at any time, and SAR granted to any individual may not exceed 1% of the issued share capital in any 12-month period. The number of SAR units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation.

40. SHARE APPRECIATION RIGHTS *(continued)*

Under the SAR scheme, all SAR are valid for five years, but are not exercisable in the first year after the date of grant. As at each of the second, third, fourth and fifth anniversary of the date of grant, the total number of units of SAR exercised may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total number of units of SAR granted to such person. Thereafter, SAR which have not been exercised will lapse. If a grantee deceases or becomes severely disabled during the five-year period, his or her share appreciation rights will be fully vested immediately.

The exercise price of the SAR initially granted was equal to the offer price of the initial public offering of the Company. The exercise price of the SAR subsequently granted is equal to the higher of (i) the closing price of the H shares on the date of grant; and (ii) the average closing price of the H shares on the five consecutive trading days before the date of grant. Upon exercise of the SAR, the person will receive cash payment, subject to any applicable withholding tax, equal to the product of the number of units of SAR exercised and the difference between the exercise price and market price of H shares at the time of exercise.

The following table illustrates the number and the weighted average exercise price of, and movements in, SAR during the year.

	2007		2006	
	Number of units *'000*	**Weighted average exercise price** *(HK$)*	Number of units *'000*	Weighted average exercise price *(HK$)*
As at 1 January	**117,072**	**1.91**	136,515	1.90
Granted during the year	**5,612**	**1.93**	8,624	1.93
Forfeited during the year	**(3,681)**	**1.93**	(4,770)	1.92
Exercised during the year	**(50,244)**	**1.90**	(23,297)	1.88
As at 31 December	**68,759**	**1.92**	117,072	1.91
Exercisable at 31 December	**9,272**		21,562	
Liabilities arising from SAR at 31 December *(RMB million)* *(note 32)*	**480**		84	
Intrinsic value of vested SAR as at 31 December *(RMB million)*	**80**		45	
Weighted average remaining contractual life of the outstanding SAR	**2.47**		3.42	
Range of exercise price for the outstanding SAR		**1.80-1.93**		1.80-1.93
Weighted average share price at the date of exercise		**9.39**		3.00

40. SHARE APPRECIATION RIGHTS *(continued)*

During the year, the Group recognised a share-based transaction expense of RMB752 million (2006: RMB102 million).

The fair value of SAR is measured by using the Black-Scholes option pricing model taking into account the term and conditions at the balance sheet date. The following table lists the inputs to the model used for the computation as at 31 December 2007:

	2007	2006
Dividend yield (%)	**–**	–
Expected volatility (%)	**63.21**	38.78
Historical volatility (%)	**63.21**	38.78
Risk-free interest rate (%)	**3.684**	3.316
Expected life of SAR (years)	**1-2**	2-3
Share price at the balance sheet date (HK$)	**11.160**	3.990

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

No other features of the SAR granted were incorporated into the measurement of the fair value.

41. RISK MANAGEMENT OBJECTIVES AND POLICIES

Similar to other insurance entities, the Group holds substantial financial assets including debt securities, equity securities and bank deposits as an integral part of its operations. The Group also issued subordinated debt instruments to enhance its solvency position. The Group has various other financial assets and liabilities such as insurance receivables, net, and reinsurance funds withheld, which arise directly from its operations. The main risks from the Group's financial instruments are credit risk, liquidity or funding risk and market risk. The details of these risks, together with insurance risk, and the Group's management policies are set out below:

(a) Financial Risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is subject to credit risk of debt securities. The Group heavily invests in debt securities issued by the government, banks and financial institutions. Details of these debt securities are set out in note 19 to the financial statements. The Group only invests in corporate debt securities with a PRC rating higher than AA.

The Group only issues insurance policies on credit to corporate customers or to individuals who purchase policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by installments are usually arranged. One of the major performance indicators is the ability to collect premiums receivable on a timely basis. The Group's premiums receivable relate to a large number of diversified customers and therefore there is no significant concentration of credit risk.

Reinsurance of the Group is mainly placed with reinsurers with A.M. Best ratings of A– or above except for state-owned reinsurance companies. Management performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets. As at 31 December 2007, the top three insurance companies owed an aggregate amount of RMB6,104 million (2006: RMB2,421 million) to the Group.

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial Risks *(continued)*

(1) Credit risk *(continued)*

The table below shows the maximum exposures to credit risk without taking into account collateral for the components of the consolidated balance sheet:

	Group and Company	
	2007	2006
	RMB million	*RMB million*
Cash and cash equivalents	30,789	28,374
Derivative financial assets	–	6
Debt securities	28,465	22,889
Insurance receivables, net	13,898	7,519
Other financial assets	8,016	6,794
Total	81,168	65,582
Commitment	–	–
Total credit risk exposure	81,168	65,582

Where financial instruments are recorded at fair value, the amounts shown above represents the current risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

Collateral was held by the Group in respect of certain securities repurchase transactions and the details are disclosed in note 17 to these financial statements.

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial Risks *(continued)*

(1) Credit risk *(continued)*

An aged analysis of the financial assets past due but not impaired and impaired is shown as follows:

31 December 2007	On demand *RMB million*	Less than 30 days *RMB million*	31 to 90 days *RMB million*	More than 90 days *RMB million*	Total past due but not impaired *RMB million*	Past due and impaired *RMB million*	Total *RMB million*
Cash and cash equivalents	30,789	–	–	–	–	–	30,789
Debt securities	28,465	–	–	–	–	–	28,465
Insurance receivables	6,368	1,202	1,736	1,910	4,848	3,704	14,920
Other financial assets	8,016	–	–	–	–	366	8,382
Total	73,638	1,202	1,736	1,910	4,848	4,070	82,556
Less: Impairment provision	–	–	–	–	–	(1,388)	(1,388)
Net	73,638	1,202	1,736	1,910	4,848	2,682	81,168

31 December 2006	On demand *RMB million*	Less than 30 days *RMB million*	31 to 90 days *RMB million*	More than 90 days *RMB million*	Total past due but not impaired *RMB million*	Past due and impaired *RMB million*	Total *RMB million*
Cash and deposits	28,374	–	–	–	–	–	28,374
Derivative financial assets	6	–	–	–	–	–	6
Debt securities	22,889	–	–	–	–	–	22,889
Insurance receivables	4,349	1,051	1,234	659	2,944	621	7,914
Other financial assets	6,678	–	–	–	–	366	7,044
Total	62,296	1,051	1,234	659	2,944	987	66,227
Less: Impairment provision	–	–	–	–	–	(645)	(645)
Net	62,296	1,051	1,234	659	2,944	342	65,582

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial Risks *(continued)*

(2) Liquidity or funding risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing to repay a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk the Group confronts is the daily calls on its available cash resources in respect of claims arising from insurance contracts and maturities of policyholders' deposits.

It is unusual for a Group primarily transacting insurance business to predict the requirements of funding with absolute certainty, as the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

As at the balance sheet date, the Group held 17% (2006: 20%) of the total assets as demand deposits and term deposits with original maturity less than three months to ensure that sufficient liquid assets are available. Additions to illiquid assets, properties in particular, are closely monitored by management.

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial Risks *(continued)*

(2) Liquidity or funding risk *(continued)*

A maturity analysis for certain financial assets and all financial liabilities that shows the remaining contractual maturities is presented below:

31 December 2007	On demand *RMB million*	Within 3 months *RMB million*	3-12 months *RMB million*	1-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:						
Cash and cash equivalents	16,768	9,263	689	2,079	4,117	32,916
Debt securities						
– Available-for-sale	–	1,337	2,378	17,140	7,619	28,474
– Fair value through profit and loss	–	622	854	1,309	1,973	4,758
Capital security fund	–	1,027	65	1,384	–	2,476
Liabilities:						
Derivative financial liabilities	–	–	–	35	5	40
Payable to reinsurers	4,697	2,973	2,079	64	–	9,813
Policyholders' deposits	982	664	1,081	5,189	37	7,953
Subordinated debts	–	–	123	732	3,547	4,402

31 December 2006	On demand *RMB million*	Within 3 months *RMB million*	3-12 months *RMB million*	1-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:						
Cash and cash equivalents	14,826	7,383	2,337	1,718	4,014	30,278
Derivative financial assets	–	–	–	7	–	7
Debt securities						
– Available-for-sale	–	167	2,693	16,470	5,703	25,033
– Fair value through profit and loss	–	2	692	1,237	52	1,983
Capital security fund	–	307	1,972	–	–	2,279
Liabilities:						
Payable to reinsurers	1,773	1,531	801	67	–	4,172
Policyholders' deposits	1,256	755	1,198	5,576	109	8,894
Subordinated debts	–	–	122	672	3,730	4,524

The Group has no significant concentration of liquidity or funding risk.

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial Risks *(continued)*

(2) Liquidity or funding risk *(continued)*

The table below summarises the expected recovery of assets:

	2007			2006		
	Current*	Non-current	Total	Current*	Non-current	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	26,355	4,434	30,789	23,951	4,423	28,374
Derivative financial assets	–	–	–	–	6	6
Debt securities	7,228	21,237	28,465	3,553	19,336	22,889
Equity securities	5,886	11,092	16,978	4,167	3,795	7,962
Insurance receivables, net	12,755	1,143	13,898	6,585	934	7,519
Reinsurance assets	8,727	2,409	11,136	7,641	2,104	9,745
Deferred acquisition costs	6,582	908	7,490	6,043	774	6,817
Other financial assets and prepayments	3,492	4,873	8,365	4,030	3,164	7,194
Investment in associates	–	1,025	1,025	–	162	162
Property, plant and equipment	–	11,721	11,721	–	11,903	11,903
Investment properties	–	532	532	–	443	443
Prepaid land premiums	–	3,866	3,866	–	3,960	3,960
Total	71,025	63,240	134,265	55,970	51,004	106,974

* Expected recovery or settlement within 12 months from the balance sheet date

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial Risks *(continued)*

(3) Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether any such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group mitigates its market risk through proper diversification of its investment portfolio. An investment mandate was also approved by an investment committee to direct investment decisions.

(i) Currency risk

The Group's principal transactions are carried out in Renminbi. Certain insurance policies issued by the Group, however, in particular in respect of cargo, commercial properties and aviation insurance, were denominated in United States dollars. Therefore, premiums received, reinsurance premiums ceded, claims paid and paid losses recovered from reinsurers in respect of these policies are transacted in United States dollars.

Moreover, the Group holds deposits of RMB10,931 million (2006: RMB11,851 million) and debt securities of RMB707 million (2006: Nil) of which their carrying values were mainly exposed to fluctuations of foreign exchange rates.

The analysis below is performed for reasonably possible movements in exchange rates for all foreign currencies with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in exchange rates, the correlations of these variables are ignored.

		2007		2006	
	Change in variables	Impact on profit *RMB million*	Impact on equity *RMB million*	Impact on profit *RMB million*	Impact on equity *RMB million*
All foreign currencies	+5%	729	729	567	567
All foreign currencies	–5%	(729)	(729)	(567)	(567)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial Risks *(continued)*

(3) Market risk *(continued)*

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

The Group mainly invests in financial assets of which the maturity periods vary from one to seven years in view of the short duration of insurance liabilities. The Group intends to maintain the duration of its investment portfolio below the market level of financial assets with similar characteristics. A high proportion of interest-sensitive financial assets are also held by the Group to reduce its interest rate risk.

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to mutual fund and equity securities whose values will fluctuate as a result of changes in market prices.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

The Group uses the Value-at-Risk ("VaR") methodology to measure the expected maximum loss in respect of interest rate risk and equity price risk over a holding period of one trading day at a confidence level of 95% based on historical data in the past one year.

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial Risks *(continued)*

(3) Market risk *(continued)*

(iii) Price risk (continued)

The VaR methodology quantifies the potential loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential loss could be underestimated. VaR also uses historical data to forecast future price behaviour, which could differ substantially from past behaviour. Moreover, the use of a one-day holding period assumes that all positions in the portfolio can be liquidated or hedged in one day. This assumption may not hold true in reality, especially when the market is illiquid.

	2007 *RMB million*	2006 *RMB million*
Interest rate risk	112	47
Equity price risk	507	144

(b) Insurance Risk

The risk under an insurance contract arises from the possibility of occurrence of an insured event and the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims payments and the costs of claims settlement exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk – the possibility that the number of insured events will differ from those expected.

Severity risk – the possibility that the costs of the events will differ from those expected.

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The Group has the objective to control and minimise insurance risk, so to reduce the volatility of the operating profits. The Group manages insurance risk through the following mechanism:

– The launch of any new product has to be approved by appropriate authorities;

– Underwriting and claim-handling authorities at different levels are properly established;

– Treaty reinsurance and most facultative reinsurance arrangements are centrally managed at the head office level; and

– Catastrophic reinsurance is used to limit the Group's exposure to flooding, earthquakes and typhoons.

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Insurance Risk *(continued)*

Claims of certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claim payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC.

The Group's concentration of insurance risk before and after reinsurance, measured by geographical turnover and net premiums written, is as follows:

	2007		2006	
	Gross	Net	Gross	Net
	RMB million	*RMBmillion*	*RMBmillion*	*RMBmillion*
Coastal and developed provinces/cities	40,856	33,703	33,065	27,292
Western China	17,746	15,249	13,627	11,997
North China	13,250	11,620	10,508	9,370
Central China	9,675	8,356	8,008	7,120
North-eastern China	7,141	5,961	6,140	5,258
Total	88,668	74,889	71,348	61,037

42. CONTINGENT LIABILITIES

Owing to the nature of the insurance business, the Group is involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvage and subrogation. While the outcome of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

43. OPERATING LEASE COMMITMENTS

The Group leases certain of its land and buildings and motor vehicles under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from one to twenty years, and those for motor vehicles are negotiated for one year (2006: from one to four years).

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group and Company	
	2007	2006
	RMB million	*RMB million*
Within one year	**234**	257
In the second to fifth years, inclusive	**130**	143
After five years	**57**	48
	421	448

44. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 43 above, the Group and the Company had the following commitments at the balance sheet date:

	Group and Company	
	2007	2006
	RMB million	RMB million
Contracted, but not provided for:		
Property, plant and equipment	**243**	473
Acquisition of an investment	**1,500**	–
Authorised, but not contracted for:		
Property, plant and equipment	**8**	28
	1,751	501

45. RELATED PARTY TRANSACTIONS

(a) Material transactions with related parties

	Notes	**2007** *RMB million*	2006 *RMB million*
Transactions with the PICC Group:			
Property rental expenses	(i)	**209**	211
Property rental income	(i)	**11**	11
Motor Vehicle rental expenses	(i)	**22**	22
Motor Vehicle rental income	(i)	**4**	4
Service fee income	(ii)	**4**	4
Transactions with associates:			
Management fee	(iii)	**57**	39
Acquisition of an associate	(iv)	**812**	160
Commission received	(v)	**–**	–
Commission paid	(v)	**–**	–

Notes:

(i) The Company entered into a Property Leasing Agreement and a Motor Vehicle Rental Agreement with the PICC Group on 9 October 2003 under which the Company rented certain properties and motor vehicles from the PICC Group and the PICC Group rented certain properties and motor vehicles from the Company. The rental income and charges in respect of these properties and motor vehicles are based on market rates. The terms of both agreements are for four years effective from 7 July 2003. The agreements were extended for one year on 6 July 2007.

(ii) The Company entered into an Information System Services Agreement with the PICC Group on 9 October 2003 pursuant to which the Company agreed to provide the PICC Group with certain information services, including (i) facilities leasing services and network services; (ii) software and application services; (iii) other computer-related facility maintenance services; and (iv) other information system services agreed by both parties. The services fee payable to the Company by the PICC Group are no less than market rates, and are determined with reference to the costs associated with the labour and equipment required to provide the services and support pursuant to the Information System Services Agreement between the Company and the PICC Group. The term of the Information System Services Agreement is four year. During the year, the agreement was extended to 6 July 2008.

(iii) On 10 October 2003, the Company and PICC AMC, which was a fellow subsidiary of the Company, entered into an asset management agreement which became effective on the same date. Pursuant to the asset management agreement, PICC AMC provides investment management services in respect of certain financial assets of the Company. The Company pays an annual management fee to PICC AMC, which is calculated based on the average daily net asset value of the assets under the management of PICC AMC in that particular year and the applicable annual rate. On 28 December 2007, the Company and PICC AMC entered into a new asset management agreement. Under this new management agreement, other than annual management fees, performance bonuses will be paid to PICC AMC when the investment performance satisfies certain conditions. The new agreement commenced from 10 October 2007 and expires on 31 December 2009.

45. RELATED PARTY TRANSACTIONS *(continued)*

(a) Material transactions with related parties *(continued)*

Notes: (continued)

(iv) On 22 June 2007, the Company entered into an agreement to contribute RMB812 million to the enlarged registered capital of PICC Life, a fellow subsidiary. The Company holds a 28% interest in PICC Life. In the prior year, on 25 July 2006, the Company acquired a 20% interest in PICC AMC.

(v) The Company entered into a mutual insurance agency agreement with PICC Life on 19 October 2006, pursuant to which the Company and PICC Life mutually acts as the agency for selling the insurance products and receiving agency premiums on behalf for each other. The Company will pay an agency fee to PICC Life in consideration of the agency services provided by PICC Life on the Company's insurance products. The Company will receive an agency fee from PICC Life in consideration of the agency services provided by the Company on PICC Life's insurance products. The agency fees are calculated by the actual agency premiums received multiplied by the agreed commission rates. The term of the mutual insurance agency agreement is three years commencing from 1 September 2006. During the year, commission income received and paid to PICC Life was less than one million and, therefore, the amount was not presented above. There was no any such transaction with PICC Life during 2006.

The transactions mentioned above constitute connected transactions under the HKSE Listing Rules.

(b) Transactions with other state-owned enterprises in the PRC

The Company operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively the "State-owned Enterprises"). During the year, the Company had transactions with State-owned Enterprises including but not limited to the sale of insurance policies. The directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the Company's business, and that the dealings of the Company have not been significantly or unduly affected by the fact that the Company and the other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Company has also established pricing policies for insurance products, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

45. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	2007	2006	2007	2006
	RMB million	*RMB million*	*RMB million*	*RMB million*
The PICC Group	36	–	–	26
Associates	–	–	20	10
	36	–	20	36

The balances with the PICC Group and associates are unsecured and interest-free, and are settled on a quarterly basis.

(d) Compensation of key management personnel (including Chairman of Board and executive directors)

	2007	2006
	RMB'000	*RMB'000*
Short term employee benefits	5,125	3,667
Post-employment benefits	371	556
Total compensation paid to key management personnel	5,496	4,223

Further details of directors' emoluments are included in note 12 to the financial statements.

46. EVENTS AFTER THE BALANCE SHEET DATE

(a) In early 2008, there was a severe snow storm in certain districts of PRC which caused extensive damage to local public facilities and personal property. This natural disaster inevitably resulted in claims across different lines of business. Up to 9 April 2008, the Group has paid claims of RMB2,120 million in respect of this snow storm. Reinsurance has been arranged for certain of these insured properties. However, since the claims adjustment and the handling of corresponding reinsurance recoveries are still in progress, the Group was unable to determine its overall impact at this stage.

(b) Compulsory third party motor insurance ("CTP") is mandatory in the PRC and a major product of the Group. Its premiums and terms are regulated by the CIRC. Subsequent to the balance sheet date, on 1 February 2008, the CTP premium rates for 16 types of vehicles were adjusted downward by between 5%-39%, while the maximum compensation limits were revised from RMB60,000 to RMB122,000 per policy. These changes in CTP will affect the performance of motor business in the future.

47. COMPARATIVE FIGURES

Certain balance sheet items were combined together and presented as a single item on the face of the balance sheets in the current year's financial statements. Accordingly, the balance sheets as at 31 December 2006 were restated to conform to the current year presentation. Material restatements of the balance sheet items include:

- Cash and cash equivalents of RMB21,606 million and term deposits of RMB6,768 million were combined together and presented as cash and cash equivalents;
- Subordinated debts held by the Company of RMB2,910 million and capital security fund of RMB2,228 million, prepayments and other receivables of RMB1,858 million were no longer presented separately on the balance sheets but included in other financial assets and prepayments;
- Unearned premium reserves – reinsurers' share of RMB4,881 million and reinsurance recoverable on unpaid losses of RMB4,864 million were combined together and presented as reinsurance assets;
- Construction in progress of RMB1,872 million was included in property, plant and equipment and no longer separately presented on the balance sheets; and
- Unearned premium reserves of RMB36,842 million and loss and loss adjustment reserves of RMB22,880 million were combined together and presented as insurance contract liabilities.

48. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 15 April 2008.

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
PICC Plaza, No.50, Dalai Street, Haishu District Ningbo, PRC	Office building	Medium term lease	100%
PICC Plaza, No.66, Hongkong Middle Street, Shinan District Qingdao, Shandong Province, PRC	Office building	Medium term lease	100%
PICC Plaza, No.17, North Chaoyang gate avenue, Beijing, PRC	Office building	Medium term lease	100%
PICC Plaza, No.6, Shiyi Jing Street, Hedong District Tianjin, PRC	Office building	Medium term lease	100%
PICC Plaza, No.57, Dongyu Street, Jinjiang District Chengdo, Sichuan Province, PRC	Office building	Medium term lease	100%

PROPERTIES UNDER DEVELOPMENT

Location	Use	Site area *(sq.m.)*	Gross floor area *(sq.m.)*	Percentage of completion	Expected completion date	Attributable interest of the Group
Yin Tai Commercial Building, East Office No.4, Jianguomenwai Street Chaoyang District, Beijing, PRC	Commercial	6,836	76,362	80%	December 2008	100%

In the opinion of the directors, disclosure of all investment properties and properties under development would result in particulars of excessive length. Therefore, only material properties are listed in the schedule.

NOTICE IS HEREBY GIVEN that an annual general meeting of PICC Property and Casualty Company Limited (the "Company") will be held at Wanchunyuan Villa, No. 28 Qinghua Road (W), Haidian District, Beijing, the People's Republic of China on 20 June 2008 (Friday) at 9:30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. To approve the Report of the Directors of the Company for 2007.

2. To approve the Report of the Supervisory Committee of the Company for 2007.

3. To approve the audited financial statements and the Report of the Auditors of the Company for the year ended 31 December 2007.

4. To approve the profit distribution plan of the Company for the year ended 31 December 2007.

5. To approve directors' fees for 2008.

6. To approve supervisors' fees for 2008.

7. To re-appoint Ernst & Young as the international auditors of the Company and Ernst & Young Hua Ming as the domestic auditors of the Company to hold office until the conclusion of the next annual general meeting, and to authorise the Board of Directors to fix their remuneration.

SPECIAL RESOLUTION

8. To grant a general mandate to the Board of Directors to separately or concurrently issue, allot or deal with additional domestic shares and H shares in the Company not exceeding 20% of each of the aggregate nominal amount of the domestic shares and H shares of the Company in issue within 12 months from the date on which shareholders' approval is obtained, and to authorise the Board of Directors to increase the registered capital of the Company and make corresponding amendments to the Articles of Association of the Company as it thinks fit so as to reflect the new capital structure upon the allotment or issue of shares.

By Order of the Board
Liu Zhenghuan
Secretary of the Board

Beijing, the PRC, 29 April 2008

Notes:

1. According to the Articles of Association of the Company, resolutions at general meetings will be determined by a show of hands unless a poll is required under the Listing Rules or demanded before or after any vote by show of hands. A poll may be demanded by the chairman of the meeting or at least two shareholders entitled to vote, present in person or by proxy, or by one or more shareholders present in person or by proxy representing 10% or more of all shares carrying the voting rights at the meeting. Irrespective of whether the voting is carried out by show of hands or by poll, the votes counted will be based on the number of shares represented by such votes.

2. The register of members of the Company will be closed from 21 May 2008 (Wednesday) to 20 June 2008 (Friday), both days inclusive, during which period no transfer of shares will be effected. Holders of H shares and domestic shares whose names appear on the register of members of the Company on 20 June 2008 (Friday) shall be entitled to attend this meeting. In order for holders of H shares to qualify for attending this meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on 20 May 2008 (Tuesday) for registration.

3. A shareholder entitled to attend and vote at this meeting may appoint one or more proxies to attend and vote in his stead. A proxy need not be a shareholder of the Company.

4. The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorised in writing. If the shareholder is a corporation, that instrument must be either under its common seal or under the hand of its director(s) or duly authorised attorney(s). If that instrument is signed by an attorney of the shareholder, the power of attorney authorising that attorney to sign or other authorisation document must be notarised.

5. In order to be valid, the proxy form together with the power of attorney or other authorisation document (if any) must be deposited at the Secretariat of the Board of Directors of the Company for holders of domestic shares and at the Company's place of business in Hong Kong for holders of H shares not less than 24 hours before the time fixed for holding this meeting or any adjournment thereof (as the case may be). Completion and return of a proxy form will not preclude a shareholder from attending and voting in person at this meeting or any adjournment thereof if he so wishes.

6. Holders of domestic shares and holders of H shares who intend to attend this meeting in person or by proxy should deliver the reply slip to the Secretariat of the Board of Directors of the Company and the Company's place of business in Hong Kong respectively on or before 30 May 2008 (Friday) by hand, by post or by fax.

7. Shareholders or their proxies attending this meeting shall produce their identity documents.

8. Regarding the proposed resolution no. 4, according to the requirements of the financial regulations of the PRC, 10% of the net profit (based on the PRC Accounting Standards for Business Enterprises) were transferred to the Company's statutory surplus reserve and 10% of the net profit were transferred to the Company's general risk reserve. The transferred amounts are set out in the "Consolidated Statement of Changes in Equity" section of the 2007 annual report. The interim dividend for 2007 was paid, the Board of Directors did not propose any final dividend for 2007.

9. Regarding the proposed resolution nos. 5 and 6, the directors' fees and supervisors' fees for 2008 are proposed to be RMB100,000 (after tax) or an equivalent amount in Hong Kong dollars for each director (except independent non-executive director) and supervisor (except independent supervisor), and HK$200,000 (after tax) or an equivalent amount in RMB for each independent non-executive director and independent supervisor. The proposed directors' fees and supervisors' fees for 2008 are the same as the directors' fees and supervisors' fees for 2007 respectively.

10. Regarding the proposed resolution no. 8, the purpose of seeking approval of the mandate is to give the Board of Directors flexibility and discretion to issue new shares in the event that it becomes desirable for the Company, and there are no immediate plans to issue new shares pursuant to the mandate.

Corporate Information

REGISTERED NAME

Chinese name: 中國人民財產保險股份有限公司

Abbreviation of Chinese name: 人保財險

English name: PICC Property and Casualty Company Limited

Abbreviation of English name: PICC P&C

PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H Share

NAME OF STOCK

PICC P&C

STOCK CODE

2328

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

REGISTERED OFFICE

No. 69 Dong He Yan Street, Xuanwu District,
Beijing 100052, the PRC

LEGAL REPRESENTATIVE

Wu Yan

SECRETARY OF THE BOARD OF DIRECTORS

Liu Zhenghuan

COMPANY SECRETARY

Man Kam Ching

INFORMATION INQUIRY DEPARTMENT

Secretariat of the Board of Directors
Tel: (8610) 83157607
Fax: (8610) 83157607
E-mail: IR@picc.com.cn
Website: www.piccnet.com.cn

AUDITORS

International Auditors
Ernst & Young

Domestic Auditors
Ernst & Young Hua Ming

CONSULTING ACTUARIES

Milliman Asia Limited

LEGAL ADVISORS

as to Hong Kong Laws
Linklaters

as to PRC Laws
King and Wood

PICC 中国人保财险

北京2008年奥运会保险合作伙伴

OFFICIAL INSURANCE PARTNER OF THE BEIJING 2008 OLYMPIC GAMES

Annual Report 2007

Stock Code: 2328